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Tensions rise as China builds up missiles aimed at Taiwan

By Tony Walker and Stephen Fidler in Washington

China has sharply increased its deployment of missiles aimed at Taiwan in a move likely to raise tensions in the region and strengthen calls in Washington for Taiwan's inclusion in a US-backed regional missile defence system.

The Chinese military has stationed 150 to 200 M-9 and M-11 missiles in its southern regions aimed at Taiwan. It plans to increase the number to 650 missiles over the next several years, according to military analysts in Washington privy to a classified Pentagon report.

A senior administration official said the build-up risked heightening tensions in the region. China "couldn't assume that a continued missile build-up in south-east China will go unanswered".

China had 30 to 50 short-range ballistic missiles in its southern areas in 1995-96 when it launched the M-9 missiles into waters off Taiwan, prompting President Bill Clinton to send two US aircraft carrier task forces to the area.

The reported escalation of China's missile capability, coming before a planned visit to Washington in the spring by Zhu Rongji, the Chinese premier, is emerging as a serious foreign policy headache for the Clinton administration. It is causing sharp differences within the US government over an appropriate response. The Department of Defence is said to favour a stronger show of support for Taiwan, but the State Department and National Security fear risks to Washington's growing "co-operative strategic partnership" with Beijing.

The Pentagon and Mr Clinton's foreign policy advisers are wrangling over the wording of separate Pentagon reports due to be sent to Congress. One deals with issues raised by missile defence systems in Asia to defend Japan, South Korea and Taiwan, and the other looks at the cross-strait military balance.

Bates Gill, a proliferation expert at the Brookings Institution, said the Pentagon studies would mark the "first round of what is going to be a very lengthy and sensitive confrontation with China about theatre missile defence", adding: "The US side is trying to be extra cautious about how this first salvo is handled. The administration wants to avoid at all costs the broader relationship being held hostage and undermined by a single issue."

Congress is already sensitive to the issue of Chinese missile proliferation following the report of a congressional committee chaired by Representative Christopher Cox. It found that China systematically over many years had stolen US military secrets, including those relating to guidance systems for rockets.

Raising the stakes, Page 4

BREUER SEEKS SETTLEMENT OF HOLOCAUST ACTION TO SAVE BANKERS TRUST TAKEOVER

Deutsche warns US lawsuits may halt bank deal

By Tony Barber in Frankfurt, and John Authers and Richard Wolffe in New York

The chairman of Deutsche Bank, Rolf Breuer, yesterday tried to increase the pressure for early settlement of Holocaust-related US lawsuits against his bank by suggesting that a delay might prompt it to withdraw from its $10bn purchase of Bankers Trust.

But campaigners said talks to resolve the issue were now proceeding well. Israel Singer, secretary general of the World Jewish Congress, described talks earlier this week as a "breakthrough", while Edward Fagan, a lawyer who has made several outspoken attacks on the German banks, praised the German government for its courage.

However, Alan Hevesi, the New York city controller who coordinated last year's sanctions campaign against Swiss banks over the Holocaust issue, made it clear he wanted to retain the option of blocking the merger.

Deutsche Bank chairman Rolf Breuer: he has warned that delay in the $10bn Bankers Trust deal could make it 'economically unreasonable'

Last week, Deutsche published documents showing it had helped finance the building of Auschwitz. Mr Breuer then went to the US, accompanied by German government officials, for lengthy talks at the State Department with representatives of Holocaust victims.

Referring to Deutsche's agreed Bankers Trust purchase, Mr Breuer said yesterday: "If there were to be delays, then of course there are natural economic limits to that. From a certain delay period onwards, the acquisition of Bankers Trust becomes economically unreasonable." The deal would be the biggest ever foreign takeover of a US financial institution.

Mr Breuer, speaking on German television, said Deutsche should not face ever-widening claims of compensation merely because its internal investigations had unearthed fresh historical evidence.

Without giving further details, Mr Breuer said such discoveries were "definitely not the last revelations of this kind". But he said they should not detract from Deutsche's right to make its business plans in the certainty that it would not face new legal challenges.

Deutsche wants the purchase to be completed by the end of June at the latest.

The negotiations for settling the issue now centre around a joint fund, which would include contributions from German industrial companies as well as banks. It would be administered by the German government, with two elder statesmen as presidents and an international body of trustees.

No figures have yet been discussed in the talks, which all participants stress is "only at the beginning of a process". However, US lawyers have made it plain that they expect "a multiple of billions of dollars" to be placed in the fund.

Dresdner, another bank which has been sued in the US, is understood to be willing to join the fund, but only once it was sure that this would give it protection against the US class action lawsuits which have been filed against it.

Salt Lake officials 'tried to hide games vote dealings'

By Christopher Parkes in Los Angeles, Patrick Harverson in London and Tim Burt in Stockholm

The main Salt Lake City officials implicated in the Winter Olympics scandal made concerted efforts to hide their alleged cash-for-votes dealings from their superiors, according to the results of a local ethics committee inquiry published yesterday.

Although the board of the committee that bid for the 2002 games could have been more watchful, the report said, its members were not blamed for the excesses of Tom Welch, David Johnson and Craig Peterson who handled the bid finances.

The findings appeared to leave many questions unanswered and failed to draw a line under the events that led to Salt Lake's selection in 1995 and the recent turmoil which has resulted in nine resignations from the International Olympic Committee, which chooses locations for winter and summer games.

Mike Leavitt, governor of Utah, said the ethics report was incomplete because the investigating panel had no powers to summon witnesses, and some of those involved in the bid committee's workings had refused to be interviewed.

Robert Garff, chairman of the Salt Lake Orgnising Committee now preparing for the 2002 games, said cash payments and disbursements for scholarship funds for relatives of IOC members and other alleged inducements were not documented.

No one argued that the bid committee's job was to gain IOC votes for the city, but "direct payments to IOC members" were not part of the plan, said Mr Garff.

Elsewhere, the repercussions of the corruption scandal continued to reverberate when the Dutch government announced that Crown Prince Willem Alexander, the heir to the throne in the Netherlands, was suspending his association with the IOC until the organisation's congress next month.

In Stockholm, the Swedish government said it would review rules on grant aid in sport following allegations of financial irregularities in Stockholm's bid to host the 2004 Olympic games.

WORLD NEWS

Washington seeks to delay EU ruling on aircraft noise

US administration officials sought to delay today's vote in the European parliament on a regulation to restrict the use of noisy aircraft inside European Union airspace. US and Canada, Page 6

Cook sees Kosovo progress
British foreign secretary Robin Cook said he hoped that three-quarters of the peace negotiations over the Serb province of Kosovo could be completed by the weekend. Europe, Page 2

Rome unready for extra visitors
The Italian government is currently far from equipped for an extra 25m people it expects to visit Rome next year to celebrate 2,000 years of Christendom. Page 14

Cancer victims denied court action
Lung cancer victims hoping to sue two UK tobacco companies were told by a judge in London that many of them had started legal proceedings beyond the time limit for court action. Britain, Page 9

Metalworkers stage warning strike
German metalworkers staged warning strikes as their trade union representatives met employers for talks aimed at ending a national wage dispute. Europe, Page 3

Lisbon threatens to block reforms
Portugal said it might block an agreement on Agenda 2000, the European Union's plan for spending reform, unless a formula was found to spare the country sharp cuts in regional aid. Europe, Page 2

Executives hide from Serb police
Executives of a US-owned Belgrade pharmaceuticals company nationalised by the Serbian government hid from police as investigations continued against Milan Panic, US head of the parent company and an opponent of President Slobodan Milosevic. Europe, Page 2

Duty free move under attack
Health groups, retailers and rail companies attacked attempts to reprieve duty free sales within the European Union. Europe, Page 2

S Africa in $5bn arms purchase
South Africa's plans to buy R30bn ($5bn) of weapons from European manufacturers should be completed by mid-year, defence minister Joe Modise said. World trade, Page 7

Manila plans separatist peace talks
Philippine president Joseph Estrada plans to hold peace talks with a Moslem separatist movement in the country's southern region of Mindanao. Recent fighting has left 30 people dead and 80,000 displaced. Asia-Pacific, Page 4

UK truck sales fall
Registrations of new commercial vehicles in the UK fell by more than 11 per cent year on year in January, industry figures show. Britain, Page 8

Inner London tops wealth table
Inner London has replaced Hamburg as the European Union's wealthiest region in the latest ranking from Eurostat, the EU's statistical service. Europe, Page 2

BUSINESS NEWS

Mobilcom announces ninefold increase in earnings to $144m

Mobilcom, new entrant to Germany's liberalised telecommunications sector, announced a ninefold increase in 1998 pre-tax earnings to DM250.5m (€128m, $144.6m). Companies and finance, Page 15; Lex, Page 14; European companies, Page 16

USA Networks owner Barry Diller, who runs the Home Shopping Network, snapped up Lycos, leading US internet company, to create a powerful new e-commerce group. Companies and finance, Page 15; Lex, Page 14

SmithKline Beecham surprised markets with a series of measures, including disposals and restructuring of manufacturing operations, as it laid out ambitious growth targets for the next three years. Companies and finance, Page 15; Lex, Page 14; SB plays solitaire, Page 21

Network Solutions, registrar of internet domain names in the US, launched the largest stock issuance ever by an internet company, with a secondary stock offering valued at nearly $780m. US companies, Page 18

Manulife Financial, Canadian insurance company, and Japanese life assurer Daihyaku Mutual are to set up a joint insurance company in Japan. Asia-Pacific companies, Page 17

Foreign investors led by Hong Kong's New World Development, Soros Quantum Fund and Morgan Stanley will today announce the acquisition of Golden Land, Thai property developer. International companies, Page 20

China delayed approval for a US$480m joint venture between Sweden's Volvo Truck and a local partner because of concern about overcapacity. Asia-Pacific companies, Page 17

NKK, Japanese steel company, warned it was unlikely to meet its profits forecast. International companies, Page 20

South Korea's 22 commercial banks reported a record combined loss of Won14,480bn ($12.3bn) for 1998 after writing off debts to troubled conglomerates. Asia-Pacific companies, Page 17

Nomura Securities, Japan's largest broker, estimates that about 5 per cent of its bond transactions for clients have been conducted at secretive, non-market prices in recent weeks. Asia-Pacific news, Page 4; Back to the wall, Page 17

AT&T, of the US, and British Telecommunications chiefs are to meet to discuss ways of jointly extending their international wireless businesses. US companies, Page 18

StoraEnso, Scandinavian pulp and paper group, confirmed it had suspended plans to set up a $1.5bn pulp plant in Brazil. European companies, Page 16

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9191.47	(-99.84)
NASDAQ Composite	2349.55	(-55.37)
Europe and Far East		
CAC40	4038.49	(-115.59)
DAX	4904.35	(-122.87)
FTSE 100	5779.9	(-55.0)
FTSE Eurotop 300	1173.02	(-24.15)
Nikkei	13,902.98	(-89.83)
US Lunchtime RATES		
Federal Funds	4.6875%	
3-mth Treas Bills: Yld	4.53%	
Long Bond	96½	
Yield	5.32%	
OTHER RATES		
UK: 3-mo Interbank	5¾%	(5¾%)
UK: 10 yr Gilt	136.50	(136.12)
BBA Eurolibor	3⅛%	(3⅛)
Germany: 10 yr Bund	107.31	(106.87)
Japan: 10 yr JGB	96.495	(97.159)
NORTH SEA OIL (Argus)		
Brent Dated	$9.68½	(9.975)

GOLD		
New York Comex	$288.4	(290.4)
London	$286.95	(289.75)
DOLLAR		
New York Lunchtime		
£	1.6351	
€	0.8849	
SFr	1.4193	
Y	114.615	
London:		
£	1.6368	(1.6328)
€	0.8850	(0.8890)
SFr	1.4167	(1.4211)
Y	114.38	(113.71)
Tokyo Close		Y 114.80
EURO (London)		
$	1.1300	(1.12249)
£	0.6904	(0.6880)
Y	129.249	(127.912)
SFr	1.6009	(1.5985)

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Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr285	Oman	OR1.75
Belgium	BFr90(€2.23)	Italy	L3900(€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320(€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr16.00	Latvia	Ls1.85	South Africa	R18
Estonia	EKr34.00	Lithuania	Lt21.00	Spain	Pta325(€1.95)
Finland	FmK13.00(€2.19)	Lebanon	LBP3,500	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr3.50
Gibraltar	£0.85	Morocco	Dh18.00	Syria	S£80.00
Greece	Dr500	Netherlands	Fl 4.80(€2.18)	Tunisia	Din2.000
Hungary	Ft300	Norway	NKr19.00	UAE	Dh13.00

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EU suggests aid cut for well-off farmers

By Michael Smith in Brussels

Most European Union countries have signalled support for an unprecedented cut in aid to well-off farmers, which could lead to more radical reform of the EU's farm subsidy system than expected.

Responding to calls for financial rigour, the European Commission, the EU's executive, this week suggested reducing direct payments for the richest third of farmers by 3 per cent a year.

A majority of the 15 EU governments at talks in Brussels on Monday night indicated they support payment cuts or want to discuss them further – a signal that they eventually are likely to accept a reduction.

The cuts, to be implemented in stages from next year, would enable EU governments to freeze farm spending after 37 years of almost uninterrupted growth.

"It is difficult to see an alternative," said a diplomat from one country formally opposed to progressive payments cuts.

"Finance ministers have said they want to stabilise spending, and cutting payments is perhaps the only way to achieve that and command the support of the majority".

The cuts would be part of a wide-ranging reform of the EU's common agricultural policy (CAP), which costs about €40bn a year and accounts for nearly half EU spending.

The reforms are expected to include deep price cuts and would enable the union to expand to the east and increase exports.

Direct payments – made to farmers to compensate for cuts in guaranteed prices – could account for more than 80 per cent of the CAP budget after the reform.

Guy Legras, the commission's farms director-general, outlined the commission's thinking after France joined the campaign for payment cuts. Other supporters include the UK, Sweden and Denmark and probably Germany.

Mr Legras said the aid cuts should apply only to farmers who received direct payments of more than €5,000 a year.

Under this plan, 67 per cent to 73 per cent of EU farmers would not see any reduction in direct payments.

By 2006, savings would amount to nearly €2.5bn a year, although about a quarter of this would be redirected to rural development. About four fifths of the CAP budget goes to about 20 per cent of farmers.

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WORLD NEWS
EUROPE

Cook cautious on Kosovo talks success

By David Buchan in Rambouillet

Robin Cook, the British foreign secretary, said yesterday he hoped that three-quarters of the peace negotiations over the Serb province of Kosovo could be completed by the weekend, while cautioning against expectations of any miracle.

Mr Cook yesterday weighed into the talks, alongside Hubert Vedrine, his French opposite number, warning both sides against sidetracking the negotiations.

The two foreign ministers, who are co-chairmen at the talks, told the Kosovo Albanians they could only get the Nato peacekeeping force they desired by playing their part in reaching a full agreement on interim autonomy for Kosovo within Yugoslavia.

The mediators have also made clear they do not wish to be sidetracked by the Serbs' push for a preliminary accord, in which the Albanian separatists would promise to respect the unity of Serbia and Yugoslavia.

Mr Cook said he hoped the two delegations could be brought face to face by this weekend.

So far, mediators have held parallel talks with each side. However, Serbs and Albanians have met in the dining room and corridors of the French presidential château in Rambouillet, in an atmosphere described as "civilised but not cordial" after the year-long conflict in the province.

Mr Cook, Mr Vedrine and their colleagues in the six-nation contact group of mediating countries are due to review progress in the talks this weekend.

If there is a prospect of final agreement the talks could be extended into next week, while in the worst case of total breakdown Nato might carry out its threat of bombing Yugoslavia.

However, Nato is thought to be unhappy about some of the tactics of the Rambouillet mediators, who want to get a political agreement before tackling sensitive security issues. Nato is anxious to start finalising its plan for a peace force to implement a settlement as soon as possible .

Chris Hill, the US envoy leading the mediation efforts, said yesterday that the mediators wanted "to nail down a political agreement on what Kosovo will look like over the next three years", the intended duration of interim autonomy. He said they would prefer to "leave the security issues until later".

An official at Nato, which next week will start putting together detailed plans for nearly 30,000 peacekeeping troops, said that the organisation wanted a greater role.

"We very much want to get our hands on the military annexe" being discussed by the contact group, he said, so that "we can shape it".

Nato "will not be merely the principal supporting actor in this, but a key element", he said.

Nato recognises Mr Hill's dilemma in not wanting to spring military issues on Serb negotiators so early in the Rambouillet talks.

Former French PM goes on trial

By Samer Iskandar in Paris

The unprecedented trial of a former French prime minister and two ministers in his government began yesterday with protestations of innocence and an order for five witnesses who had previously refused to testify to appear in court.

Laurent Fabius, prime minister in 1984-1986 under President François Mitterrand, Georgina Dufoix, then social affairs minister and Edmond Hervé, health minister at the time, are accused of manslaughter and endangering the lives of others by allegedly delaying the introduction of HIV testing on blood donated for transfusions.

Mr Fabius said yesterday he expected "the trial to both respect [the victims'] suffering and establish the truth". "For years, not a single day went by without my thinking about [the victims] and their pain," he said.

Mr Hervé said: "I assume responsibility for my actions, and I state my innocence."

In 1985, Mr Fabius's government allegedly delayed HIV testing in order to favour a French test over a rival American product. The former ministers are also accused of authorising the distribution of blood they knew to be contaminated with HIV, the virus that causes Aids.

Christian Le Gunehec, president of the Court of Justice of the Republic (CJR), a special court created in 1993 to try government officials for offences committed while in office, ordered the testimony of five witnesses, including Michel Garretta, the former head of the national blood transfusion agency (CNTS).

The five have been – or are still being – tried in a normal court. They also include Jean-Pierre Allain, a researcher at the CNTS, and Jacques Roux, an official at the health ministry, who were convicted alongside Mr Garretta in a 1993 trial. The other two, currently under formal investigation, are Claude Weisselberg, a former adviser at health ministry, and Bahman Habibi, a former CNTS official.

Mr Garretta's testimony is thought to be crucial in establishing whether the government knew it was authorising transfusions with contaminated blood.

Françoise Toubol-Fischer, a lawyer representing Mr Weisselberg, said her client could not be made to testify before the CJR because he was involved in separate proceedings related to the case. The trial is expected to last at least three weeks.

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Executives flee police in Belgrade

By Guy Dinmore in Belgrade

Senior executives of a US-owned Belgrade pharmaceuticals company nationalised by the Serbian government were yesterday hiding from police as investigations continued against Milan Panic, the US head of the parent company and an outspoken opponent of President Slobodan Milosevic.

Mr Panic, chairman of ICN Pharmaceuticals Inc, the California-based parent company quoted on the New York Stock Exchange, cancelled plans to fly to Belgrade after aides warned him he might be arrested.

Serbian police seized control of the pharmaceuticals complex on Saturday, a day after the government announced unilaterally it had taken a majority stake in ICN Yugoslavia, formerly the biggest foreign-owned company in Serbia.

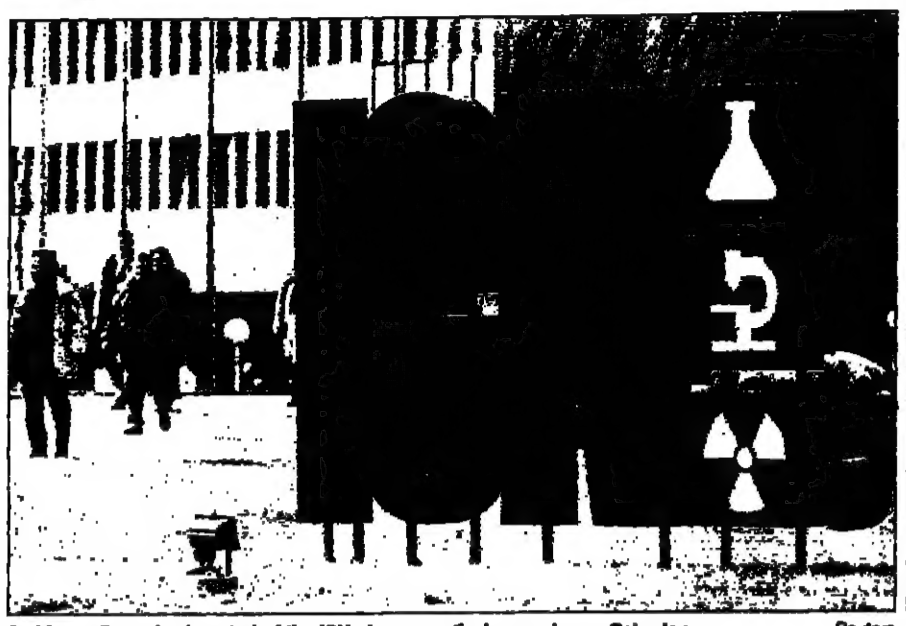
Three vice-presidents of ICN Yugoslavia were held by police for a second day after raids on their homes. A fourth official was detained when police searched the offices of NP Holding, a private company owned by Mr Panic. Ljubisa Rakic, a former general manager, cancelled a press conference. ICN sources said he was in hiding along with other executives.

James Rubin, the US State Department spokesman, denounced the takeover of the US-owned company, linking it to Mr Milosevic's decision to send a delegation to France to take part in peace talks on Kosovo province.

"The fact that this takeover occurred at the same time as peace talks opened indicates that Milosevic has not abandoned his tactics of taking new repressive measures when he hopes the world's attention has been diverted by another crisis of his making," Mr Rubin said on Monday. Diplomats said the takeover could result in prolonging US sanctions against Belgrade.

Mr Panic, a naturalised US citizen from Serbia, was Yugoslav prime minister from 1992-93 but fell out with Mr Milosevic and founded an alliance of opposition parties in Serbia last year.

Belgrade said it seized ICN Yugoslavia because Mr Panic had broken an agreement to invest $270m when he took a 75 per cent stake in 1991. Last year, the cash-strapped Serbian government refused to pay $170m owed to ICN for drugs supplied to the health service.



Serbian police seized control of the ICN pharmaceuticals complex on Saturday Reuters

Mr Panic is no stranger to controversy. The US Securities and Exchange Commission sued him twice for allegedly issuing misleading financial projections and false statements about drug development. But last year it dropped a three-year insider-trading investigation against him.

The plant's new government-appointed director said production resumed yesterday. But ICN officials said about half of the 3,500-strong workforce signed a pledge of loyalty to Mr Panic.

Portugal may block EU aid reforms

By Peter Wise in Lisbon

Portugal is prepared to block an agreement on Agenda 2000, the European Union's plan for reforming spending, unless a formula is found to spare the country sharp cuts in regional aid.

"We hope to resolve the issue by negotiation," said Francisco Seixas da Costa, European affairs secretary in the Socialist government. "But there is a point beyond which we will not go."

Approval of the Agenda 2000 reforms require a unanimous agreement by EU governments.

A general election in Portugal, due in October, is expected to make António Guterres, prime minister, less likely to give way on Portugal's demands.

His government, fearing Portugal will be the hardest hit nation by the Agenda 2000 proposals, is pressing for concessions to soften the impact of planned cuts in structural funds, which are mainly distributed as regional aid.

Portugal will be the victim of an unfair "negative accumulation" of aid cuts if no concessions are made, says Mr Seixas da Costa.

Agenda 2000 focuses on reducing spending on structural funds, the main source of aid to Portugal, currently the equivalent of 3.5 per cent of gross domestic product a year. Less stringent cuts are envisaged in agriculture. But this will not benefit Portugal because of the structure of its farming sector.

Portugal is a net contributor under the terms of the Common Agricultural Policy, which channels aid mainly to meat, dairy and cereal production.

Portugal will suffer a further blow because the Lisbon region, which accounts for 43 per cent of national GDP and where a third of the population lives, will no longer be classified as one the EU's poorest areas. This means a substantial cut in structural funds.

Only regions whose gross regional product per capita was below 75 per cent of average EU GDP per capita in 1997 qualify for the top rate of aid under the Agenda 2000 proposals for the period 2000 to 2006. The rate in Lisbon was 85 per cent.

Portugal proposes phasing out aid to the Lisbon region more gradually than for other similar regions.

The government says this would enable Portugal to maintain a share of about 10.8 per cent of EU funds over the next six years, rather than seeing them cut to about 9 per cent as currently envisaged.

"Portugal is the only country that is losing a region from the highest aid bracket, but whose national GDP per capita as a whole remains below 75 per cent of the average EU level," said Mr Seixas da Costa.

Poland's film industry pleads case for funds

By Christopher Bobinski in Warsaw

Cossack horsemen thunder once more across a Ukrainian plain to threaten the kingdom of Poland in an epic film premiered in Warsaw this week. Poland's film enthusiasts are hoping the film – *By Fire and Sword* – will mark a revival of an industry which once gave the world a regular supply of art-house movies but which has been in near terminal decline since the fall of communism.

Whereas in the past Jerzy Hoffman, the director, had to get approval from the censors for his work, money has been the obstacle since 1989. Only after he had managed to persuade the local Kredyt Bank to grant him a 12m zloty ($3.4m) loan did the film become viable.

In the shadow of the excitement Mr Hoffman's epic is generating, the country's Film Makers' Association, headed by Pawel Bromski, is lobbying hard to push a new law through parliament which would ensure more funds for Polish-made films.

The projected French-style system would include levies on television advertisers and film distributors and tax breaks for cinema owners who showed locally made films.

The new arrangement would also fly in the face of Poland's commitment to the Organisation for Economic Co-operation and Development, which would like to see the country's audiovisual market opened up to the full thrust of competition from the US.

However, Mr Bromski and his colleagues have the backing of European Union officials. They are concerned that should Poland, a candidate for EU membership, open up its audiovisual market to the US, there would be a back door route into the EU.

Mr Bromski feels that the time has come for non-commercial support for his industry. "After 1989 we realised we couldn't count on the funding we had under the old regime. So in the 1990s we set out to make low-budget films which would at least provide work for core technical people to enable the industry to survive until better times."

The last few years have seen about 20 films a year being made in Poland with the aid of a 20m zlotys annual state subsidy. Mr Bromski estimates the subsidy could rise to 60m zlotys a year if the new film law was passed by parliament.

Andrzej Wajda, one of Poland's best-known film directors, who has just filmed *Pan Tadeusz*, based on a classic 19th century work, backs the new law. "We must have a film industry if we are to protect the Polish language," he argues.

Euro may reinforce banking mergers

By Wolfgang Münchau in Frankfurt

The euro is likely to reinforce the merger and consolidation process in the European banking sector, according to a study by the European Central Bank.

The report*, published yesterday, argues that economic and monetary union could trigger a shake-up of the sector that could leave some banks as "Emu-losers".

The ECB expressed concern that concentration in the banking sector might lead to a greater degree of short-termism among banks.

"The risk exists that banks under pressure might favour the adoption of high-risk strategies – for example those arising from the rather short-term oriented shareholder value philosophy," it said.

Tommaso Padoa-Schioppa, member of the ECB's executive board, said European banks had some advantages over their US counterparts, as they tended to pursue more long-term strategies.

He cited this as a reason why the global financial turmoil had created more tensions in the US markets than in Europe.

"It seems that the European banks are lagging behind the US in the restructuring process to some extent. Over-branching and over-staffing is still a problem in Europe," he said.

Technology, rather than Emu or the single European market, was the main factor behind this process, according to Mr Padoa-Schioppa.

Despite the adoption of a single currency, the European Union has left the supervision of banks, insurance companies and securities markets in the hands of national authorities, while the ECB acts as a conduit for the exchange of information. It also has a consultative role.

Edgar Meister, a director of the Bundesbank who chairs a banking supervisory committee of central bankers and regulators from the 15 member countries of the EU, said it was "premature to ask for a single banking supervision" authority for the euro-zone.

**European Central Bank, "Possible effects of Emu on the EU banking systems in the medium to long term", Feb 1999; http://www.ecb.int*

New twist in duty free dispute

By Emma Tucker in Brussels

Health groups, retailing associations and rail companies are mounting a counter-offensive against the powerful International Duty Free Confederation and its ferocious lobbying to win a reprieve for duty free sales.

The campaign, spearheaded by anti-tobacco groups, comes as the European Commission is preparing to produce a report looking at the impact of abolition of duty free sales on employment and possible means of overcoming the problems.

The European Union executive is under pressure from certain member states – notably the UK – to grant a reprieve for duty free sales, due to be abolished in June. The decision, taken eight years ago, was backed unanimously by member states, which viewed duty free sales as a distortion to trade within the single market.

However, some governments have recently wavered in their support for the move because of claims that scrapping duty free will lead to severe job losses.

The International Non-Governmental Coalition against Tobacco (Ingcat) has written to EU finance ministers warning that the IDFC is effectively a front for the tobacco industry. Its letter points out that the price advantage of duty free sales is much higher for cigarettes and other tobacco products than for drink or luxury goods.

"A decision to extend duty-free is in principle a decision for tobacco and tobacco sales," says the letter.

Ingcat – a coalition of NGOs dealing in health matters – claims that at least one key member of the IDFC is a senior executive with an international cigarette company and argues that an extension of duty free sales would contradict government initiatives to discourage smoking and promote good health. It would also sit oddly next to EU legislation banning tobacco advertising and sponsorship.

The IDFC has lobbied furiously to have the 1991 decision to end duty free sales overturned, arguing that up to 140,000 jobs could be lost.

But Eurocommerce, which represents retailers and wholesalers of duty-paid goods, has joined the counter offensive, urging member states to stick to the original timetable and threatening to challenge any extension of duty free sales in court.

Rail companies, aggrieved that by law they are not allowed to sell duty free goods, are also campaigning hard against a prolongation of the current regime. On cross-channel services, Eurostar is alone in not being allowed to sell duty free goods.

NEWS DIGEST

EU REGIONAL STATISTICS

Inner London replaces Hamburg in wealth table

Inner London has replaced Hamburg as the European Union's wealthiest region in the latest ranking from Eurostat, the EU's statistical service.

The German city has long been number one in the table, measured by gross domestic product per capita, but was knocked off the top spot after London was split into two parts – Inner and Outer London – for the first time.

Inner London generated more than twice the wealth per capita as the EU regional average in 1994-1996 – at 222 per cent after taking the EU average as 100 per cent. This was ahead of Hamburg at 194 per cent, Darmstadt at 173 per cent, Brussels at 172 per cent and the state of Luxembourg at 170 per cent. London as a whole scored 138 per cent.

Fifty regions generated less than 75 per cent of the average, making them eligible for priority "objective one" status for EU regional funding under proposals for 2000-2006 being considered by ministers. They include all 13 Greek regions – with the Ipeiros region the EU's poorest on 43 per cent – and six of Portugal's seven.
Neil Buckley, Brussels

EU CORPORATE TAXES

Rates seen falling

Corporate tax rates in Europe either fell or remained the same last year, according to a survey by KPMG, the international tax advisers, who claim to throw a different light on the recent debate over whether greater tax harmonisation within the European Union might increase tax levels in individual member states such as the UK.

While there are still differentials between EU member states, the survey says France, Germany and six other European countries reduced their tax rates last year.

Ian Barlow, head of KPMG's European tax practice, said: "This continues the trend that we have seen since 1996 – over the last three years the average rate among EU states has come down by 3 percentage points to around 36 per cent. We would expect the advent of the euro to accelerate that trend. The UK's rate, which will be cut to 30 per cent in April, is still very competitive."
Andrew Bolger, London

RUSSIAN MILITARY

Planners fear 'disintegration'

Russia's military general staff fear a "tragic disintegration" of the country's armed forces unless their size is radically reduced over the next few years, according to a Russian military journal. The weekly Nezavisimoye Voyennoye Obozreniye (Independent Military Review) reported that military planners believed Russia only had the financial resources to support 550,000 to 600,000 military personnel – about half the army's current size.

The defence ministry could not confirm the authenticity of the report but it reflects a growing unease among the general staff about the chronic underfunding of the military. President Boris Yeltsin had vowed to turn Russia's sprawling conscript army into a far smaller, better trained professional force by the 2000. But the country's financial crisis has hampered the implementation of these plans.
John Thornhill, Moscow

UKRAINE CURRENCY

New trading corridor set

Ukraine announced a new trading corridor for the hryvnia yesterday, setting the upper limit on the exchange rate at 4.6 hryvnia to the US dollar during 1999, up from last year's upper limit of 3.5. The hryvnia is currently trading at 3.6-3.8 to the dollar. The lower limit of the corridor will be 3.4 hryvnia.

The new corridor is considered conservative by many economists, who think that it can be maintained only by keeping the currency strictly regulated. Ukrainian exporters must currently sell 50 per cent of their hard currency earnings to the national bank at the official exchange rate.

Experience has also shown that the corridor can be revised during the year. Last year, Ukraine widened the corridor for the hryvnia after the collapse of the Russian rouble in August, moving the upper limit from 2.25 to 3.5 hryvnia. **Charles Clover, Kiev**

TURKISH SUBSIDIES

World Bank urges reform

The World Bank yesterday urged Turkey to reform its inefficient agricultural subsidies, which it said were far more costly than the often-criticised European Union farm handouts.

Ajay Chhibber, director of the Bank's office in Ankara, said the Turkish system was "totally outdated in today's world", benefited "too few", and cost "too much".

Figures from the Organisation for Economic Co-operation and Development suggest that total transfers to Turkish agriculture amounted to 7.8 per cent of the country's gross domestic product in 1996. This compared to just 1.3 per cent for the OECD as a whole.

Touching on some of the main findings of a World Bank report on Turkish subsidies to agriculture, which employs almost half the labour force, Mr Chhibber said handouts did not even reach "the vast majority of the rural population". **Leyla Boulton, Ankara**

NAZI WAR CRIMINALS

Lithuanian court ends trial

A Lithuanian court yesterday ended the trial of Kazys Gimzauskas, an alleged Nazi war criminal, by citing the defendant's poor health. It also ruled that the trial of Aleksandras Lileikis, another alleged war criminal, be put on hold until the US government produces evidence about his health.

The two men, both aged 91, are charged with genocide after allegedly turning over dozens of Jews to the Nazis during the German occupation of Lithuania in the second world war. Mr Lileikis was the head of the Vilnius security police, and Mr Gimzauskas his deputy, during the war.

The presiding judge in the trial of Mr Gimzauskas said the proceedings might resume if the defendants' health improves. **Matej Vipotnik, Tallinn**

CORRECTION

European Court of Justice

The FT of January 27 wrongly stated that the European Court of Justice had fined the Belgian sales subsidiaries of four motorcycle manufacturers for hindering sales of their machines by parallel importers. The fines were in fact handed down by Belgium's competition authority.

ELECTION LOSS CONTROL OF BUNDESRAT FORFEITED AFTER HESSE DEFEAT □ UNFAIR TACTICS DENIED

Lafontaine to pursue tax reform

By Frederick Stüdemann and Ralph Atkins in Bonn

Oskar Lafontaine, Germany's finance minister, said yesterday that the next stage of his tax reforms would go ahead as planned, even though his Social Democratic party has lost its majority in the upper house of parliament.

Other government plans, including liberalisation of citizenship laws, are likely to be scaled back to reflect the altered balance of power. Mr Lafontaine indicated that proposals to shut down nuclear power stations could also be affected, although he hoped the government could win back the upper house before legislation needed to be voted on.

The SPD lost control of the Hesse state government at the weekend. But Mr Lafontaine said the SPD would use Hesse's votes to back the latest piece tax legislation on March 19, when it is presented to the upper house or Bundesrat, which represents the federal states. The legislation is due for debate in cabinet today.

Hesse's defeated "red-green" coalition of SPD and Greens will not be replaced until a new government led by the Christian Democrat Union takes office in April.

Mr Lafontaine dismissed suggestions that he was using unfair tactics to rescue his controversial tax plans, insisting the government had a mandate from voters for its plans.

The next stage of the tax package includes reductions in business tax rates plus cuts in the basic rate of income tax to 22.9 per cent in 2000 and 19.9 per cent in 2002.

The CDU has attacked Mr Lafontaine's tax plans for being too harsh on business, which faces further burdens due to the closing of up to 70 loopholes, and too timid in delivering real economic benefits with significant cuts in income tax.

The finance minister conceded the government would rethink its plans to offer dual citizenship to foreigners living in Germany following after the Hesse election, in which the issue was successfully exploited by the CDU. In a newspaper interview to be published today, Mr Gerhard Schröder, chancellor, said dual nationality might now be permitted in only limited circumstances.

Mr Lafontaine said the nationality bill had not yet been finally drafted. He said that while the CDU opposed widespread "dual nationality" its position created "room for manoeuvre".

Mr Lafontaine added that the government was "not under the same time pressure" on its plans to phase out nuclear power as on tax. He said the SPD could regain its Bundesrat majority in further state elections later this year.

Mr Lafontaine could face greater difficulties pushing through a further reform of corporate taxes planned for next year, when the highest rate for all business taxes would be capped at 35 per cent.

Without a clear majority in the Bundesrat by SPD-run states the Bonn government will be dependent on the votes from "neutral" states. These include Rhineland-Palatinate, which the SPD runs in coalition with the small pro-market Free Democratic party. Under Rhineland-Palatinate's coalition agreement, when the two parties cannot agree on how to vote in the Bundesrat, a decision would be taken by drawing lots.

British defence merger upsets Bonn's vision

Germany sees BAe deal as setback in setting up a unified European defence group. **Alexander Nicoll** and **Ralph Atkins** report

British Aerospace has stirred a hornet's nest in Bonn with its planned £7bn ($11.5bn) purchase of the Marconi defence division of General Electric Company.

The deal, if cleared by regulators, will create a British defence giant instead of the Anglo-German combine which the German government thought would result from months of negotiations between BAe and Daimler-Chrysler Aerospace (Dasa).

"That BAe should go with Marconi surprised me and I told [BAe chief executive] John Weston so," says a senior German defence official. "I'm still waiting for him to explain what happened."

For Dasa, BAe's decision was a disappointment but a commercial decision which the British group, as a private sector company, was entitled to take. But in Bonn, BAe is viewed as having wider responsibilities.

A merger of BAe and Dasa would have been the first step towards creating a unified European aerospace and defence company (EADC), seen in Bonn as a necessary step towards the greater goal of forging a common European Union foreign and security policy.

"Europe will need efficient companies to achieve that goal and therefore an EADC is of the greatest importance," says Siegmar Mosdorf, a minister in the economics ministry and the government's aerospace co-ordinator. "Its ramifications go beyond routine business. There is a political dimension to it."

Germany is anxious to give substance to commitments in the 1997 Amsterdam treaty to develop a common EU defence policy and a European security and defence identity (ESDI).

"The ESDI cannot fly if we don't give it wings," the defence official says. "Those wings have to be provided by industry. Tony Blair seems very serious, but it needs something from the industry side."

Mr Mosdorf says an EADC is essential "if we want to take responsibility for ourselves on foreign and security policy questions, without being dependent on permanent help from the other side of the Atlantic."

Although the BAe/GEC deal is seen as slowing formation of an EADC – partly because of BAe's sheer future size – it appears to have goaded Germany into greater enthusiasm for the pan-European integration of the industry demanded by the British, French and German governments in December 1997.

Two days after the BAe/GEC deal was announced on January 19, Mr Mosdorf called at a meeting of six European ministers with responsibility for aerospace for the development of a "step-by-step plan" with a timetable towards creating an EADC.

The plan is to be discussed at the ministerial group's next meeting in Rome this summer, to which representatives from industry will be invited for the first time in an attempt to increase the tempo.

British companies have made clear their principal duty is to shareholders, though an essential element of preserving shareholders' interests is paying attention to the governments which are their main customers.

The defence official in Bonn says: "If shareholder value is the new god, then it is not my world. There are limits to shareholder value, and responsibilities."

Mr Mosdorf says an EADC must be created on the principle of "balanced partnership". This means executives of joining companies must be integrated into operating management, preserving each nation's involvement at the top level.

Secondly, it means "it cannot be possible to be outvoted in important decisions," though Mr Mosdorf insists he is not arguing for rights of veto for any participating company.

"You have to find an acceptable contractual mechanism that makes possible a balanced partnership... There are many cases in which industries co-operate on a global scale on the basis of balanced partnership."

Management representation and the balance between financial valuation and voting control were precisely the issues dividing BAe and Dasa before the British company struck its deal with GEC.

Mr Mosdorf sees the same principles of a "merger of equals" applying to reform of the Airbus consortium into a single corporate entity, which BAe and Dasa have been negotiating with Aerospatiale of France and Casa of Spain for two years. The European civil aircraft maker urgently needs to take this "leap forward", he says, because "Boeing will be a top world player again in two years".

The BAe/Marconi deal, Mr Mosdorf believes, has set back both the EADC and the Airbus restructuring. This is because he expects France, which is in the midst of privatising its aerospace and defence industry, to take further steps to build up a French pillar to rival the enlarged BAe.

"My problem is that... France has also to integrate vertically to get to the same value as the British. That could take two years more."

He believes European consolidation is still possible, but is worried about slow progress. "Airbus will be facing fierce competition in about two years. Time is money. It's very important."

Herbert Mai of the public sector union OeTV at pay talks yesterday. His union is seeking wage rises of 3 per cent Reuters

Metal workers in crucial talks

By Tony Barber in Frankfurt

German metal workers staged warning strikes from the Baltic coast to Bavaria yesterday as their trade union representatives met employers for a possibly decisive round of talks to end a national wage dispute.

Neither side reported immediate progress in the negotiations, which are important for German industry since the annual settlement reached with the IG Metall union sets the standard for agreements throughout much of the economy. IG Metall, the nation's largest union, which represents 3.4m workers, has said that if no deal is struck by midnight tonight it will ballot its members on holding an official strike.

The stoppages so far, though involving tens of thousands of workers and affecting at least seven of Germany's 16 states, have lasted only an hour or two at a time.

Industry analysts believe IG Metall and the employers' association Gesamtmetall will probably reach an agreement at the last minute, since neither side is thought to have the appetite for a full-scale confrontation.

The employers are offering workers a basic wage increase of 2.3 per cent, plus a one-off rise of 0.5 per cent for those companies which can afford it. IG Metall wants 6.5 per cent but some union officials have signalled they would accept as little as 4 per cent.

Ralph Atkins adds from Bonn: German unemployment fell unexpectedly sharply last month, helping lift some of the gloom over the outlook for jobs. The total out of work fell by 59,000 to 4.092m after seasonal adjustment – the lowest since October 1996.

The latest figures followed rises in the previous two months and government warnings that a deteriorating economic outlook meant unemployment was unlikely to fall much in 1999. Mr Schröder has set tackling unemployment as his top priority. However, Bernhard Jagoda, president of the federal labour office, said January's figures had been helped by relatively mild weather and official job creation schemes.

Cyprus 'keeps missiles control'

Greece said yesterday it would have operational control over anti-aircraft missiles Cyprus ordered from Russia but is now diverting to the Greek island of Crete after Turkish threats of military action, Reuters reports from Athens.

"The missiles remain in the possession of the Cypriot state. Greece will control their operation and of course will take over the operating costs of this system," a government spokesman said.

Cyprus formally signed over the controversial S-300 missiles late on Monday. They were diverted to Greece after Turkey threatened to stop their deployment in Cyprus and the European Union and US launched diplomatic efforts to defuse what they saw as a dangerous situation brewing in the eastern Mediterranean.

Details of the deal, signed by Akis Tsohatzopoulos, the Greek defence minister, and Yannakis Chrisostomis, his Cypriot counterpart, were not released.

"The two governments will be in full communication and will jointly decide in which ways this weapons system will be used," the Greek spokesman said.

Mr Tsohatzopoulos said before the private signing that the missiles would be installed on Crete as part of a joint defence pact with Cyprus. "Greece guarantees the security of Cyprus," he said. "This is the basis of all our efforts." He said Cypriot and Greek officials would go to Moscow on Monday to iron out logistical details with the Russian makers.

Cyprus ordered the S-300s some two years ago but agreed to divert them to Greece in December after threats from Turkey and pressure from Washington and the EU.

Turkey has also expressed concern about the missiles being on Crete, which lies between the Greek mainland and North Africa, about 550km west of Cyprus.

Secret Japan bond deals fuel fears over losses

By Gillian Tett and Naoko Nakamae in Tokyo

Nomura Securities, Japan's largest broker, estimates that about 5 per cent of all its bond transactions for clients have been conducted at secretive, non-market prices in recent weeks.

These unorthodox deals, which could reach Y1,000bn ($8.9bn) according to some industry estimates, can help clients to conceal portfolio valuation losses arising from the recent falls in Japanese government bond prices.

Nomura refuses to comment on its clients' motives for requesting these trades, known as "price adjustment" deals. However, it says demand for these trades is now coming from "tax-exempt" institutions, such as public-sector financial bodies.

The revelations may fuel concern that some public institutions are now trying to conceal losses on their investment portfolios. The main tax-exempt institutions in Japan are the national postal savings and insurance scheme, pension funds, state-owned banks and agricultural co-operatives.

A government official said yesterday that groups such as the postal savings bureau had conducted these trades "from time to time" to "overcome the negative yield problem".

The postal savings bureau, which owns about Y28,000bn of government bonds, refused to comment.

The Ministry of Finance insists that these public institutions are much healthier than private banks. But some western economists suspect that some public sector institutions may now be concealing large losses.

These institutions' accounts are very opaque, since they do not mark the value of their securities holdings to market prices. This means that they can flatter their accounts through "price adjustment" deals.

Most western banks believe that these trades contravene Anglo-Saxon global compliance principles. However, Nomura says that the price adjustment schemes are legal, as on December 1 the Japan Securities Dealers Association, the industry body, abolished a rule requiring all deals to be conducted within 2 per cent of the market price.

Hiroshi Toda, global head of bonds, says: "We have nothing to hide in this – under JSDA rules Nomura has its own guidelines [for these price adjustment deals] which are practical and flexible.

"Western firms are using compliance principles designed for western markets, where there is no cost-based accounting. But there is a totally different system here which means that western compliance procedures are not totally applicable to the type of client doing these transactions."

Nomura says there is little demand for these deals from Japan's largest private banks. "Most Japanese banks understand that they cannot do this kind of thing because... they know the market will regard them negatively if they find out," Mr Toda says.

However, other banks and brokers have been asked by private banks to conclude such deals ahead of the end of the fiscal year.

These deals typically involve the client "selling" poor-performing Japanese government bonds for an artificially high price while agreeing to accept unlisted bonds, such as local government issues, for an artificially low price.

PENTAGON REPORT CHINA MISSILE BUILD–UP RAISES MILITARY STAKES IN ASIA AND FUELS FEARS IN WASHINGTON

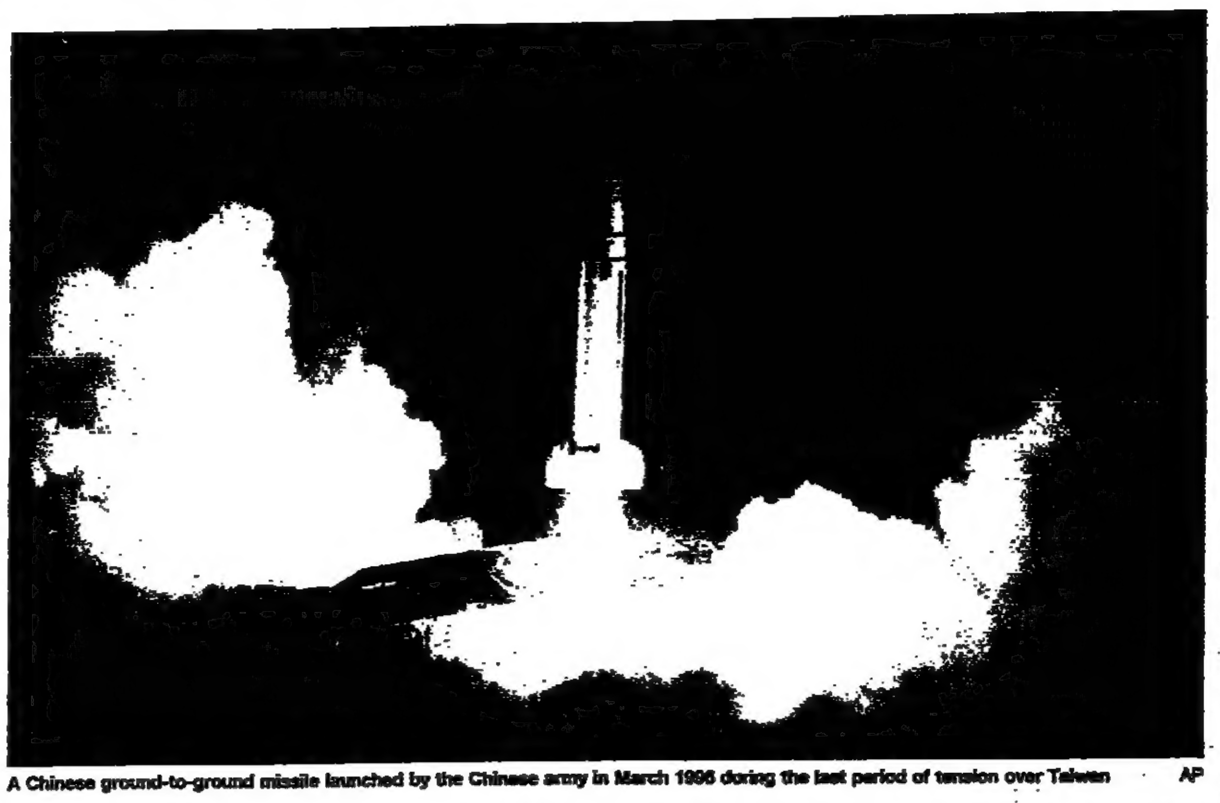
Big powers flex muscles over Taiwan

By Stephen Fidler and Tony Walker in Washington

The build-up of China's ballistic missile arsenal facing Taiwan, disclosed by a Pentagon report expected to go to Congress soon, is likely to contribute to a growing suspicion in the US Congress of China's military ambitions. This and other developments will make it more difficult for the Clinton administration to conduct the strategic dialogue in favours with Beijing, and is likely to complicate a planned visit of Zhu Rongji, the Chinese premier, to Washington in the spring.

James Mulvenon of the Rand Corporation in Washington said the Chinese aim in increasing the numbers of missiles pointed across the Taiwan Strait appeared to be "to increase their missile capability vis a vis Taiwan so that if anything happened to provoke China it could carry out sustained missile attacks."

Military analysts in Washington say these developments are part of a Chinese military modernisation programme outlined in another Pentagon report declassified in the autumn. This report said that "China has embarked on a ballistic missile modernisation programme" and was making efforts to develop accurate ballistic and cruise missiles "in numbers sufficient to conduct attacks capable of overwhelming projected defence capabilities in the Asia-Pacific region".



A Chinese ground-to-ground missile launched by the Chinese army in March 1996 during the last period of tension over Taiwan AP

Clinton administration officials acknowledge that the development will feed into a growing debate in Washington about the need for missile defence systems – both for US territory and for theatre missile defence systems (TMD) for US troops and friendly countries in Asia.

Last month, William Cohen, US defence secretary, announced a policy decision to pour significant resources into a still untested national missile defence system. He also announced the Pentagon would intensify work on its faltering TMD systems, where an army system, which has failed five consecutive flight tests, and a less developed but more promising navy system will compete for deployment in 2007.

A senior administration official said that China "couldn't assume that a continued missile build-up in south east China will go unanswered. It just stands to reason that there will be a response." That response from the US, he said, could come in a variety of forms, including TMD.

The debate about TMD in Asia has concentrated on the three zones considered potentially the most vulnerable: Japan and South Korea, both allies of the US, and Taiwan, which the US is strongly committed by legislation to defend. A classified report on the subject from the Pentagon is expected to arrive at Congress at any time.

While a number of factors have contributed to the change in direction of US policy towards missile defence, the main event was the August 1998 launch of a North Korean missile over Japan. That missile – a three stage rocket which could potentially soon be capable of reaching US territory – has also intensified the debate inside Japan about the need for ballistic missile defence.

China, according to one senior administration official, has already "made a huge issue of US-Japanese TMD co-operation", though in his view such co-operation would have "no significant impact on China". But military analysts say China is concerned about the links between TMD in Japan and Taiwan, in particular that US TMD ships could be deployed to Taiwan in the event of a crisis.

Another senior Clinton administration official acknowledged that China "was extremely concerned about the prospect of TMD for Taiwan." Beijing's response, he said "would be serious".

The Pentagon reports on China-Taiwan relations and on TMD come as another report from a select committee of the House of Representatives, led by Christopher Cox, a California Republican, is being declassified. This report shows, Mr Cox has said, that China has through a variety of means licit and illicit been able to obtain US technology to enhance its military capabilities.

According to Mr Mulvenon, it will be "difficult for Beijing not to conclude from the Cox report and these Pentagon reports that the US is not intent on trying to contain the Chinese military."

Partly for this reason, there has been an intense debate on how much of the report on China's missile deployment should be declassified, between the National Security Council and State Department on the one hand, which want to preserve the "strategic dialogue" with China, and the Pentagon, widely seen as more "pro-Taiwan", on the other.

US high-tech exports 'could aid Chinese army'

By Stephen Fidler in Washington

The willingness of US companies to transfer technology as the price of gaining a foothold in the Chinese market could benefit China's military, a report commissioned by the US government has concluded.

The report published by the Bureau of Export Administration (BXA), a branch of the Commerce Department, said China's coercion of foreign companies to transfer commercial technology could over time "pose long-term challenges to US national security interests".

The study did not identify specific Chinese military advances made as a result of commercial technology transfers from the US. But it "does suggest that continued pressures on foreign high-tech firms to transfer advanced commercial technologies, if successful, could indirectly benefit China's efforts to modernise its military".

The report reinforced some conclusions of a congressional committee which said US national security had been harmed by US companies transferring technology with possible military uses to China. The report by a House of Representatives select panel, chaired by the California Republican Christopher Cox, is still secret, although some of its conclusions have been declassified.

Clinton administration officials, in an attempt to defuse controversy over the committee's bipartisan conclusions, have said President Clinton intended to name a team of experts to assess damage done by technology transfers to China. This group's findings would be appraised by an independent panel before going to Congress.

The BXA report, prepared by DFI International, a private consulting firm, said numerous US high-tech companies had agreed to technology transfers in exchange for joint ventures or limited market access in China. Increasingly, foreign companies were being pressed to establish a research and development or training centre, an institute or a laboratory as deal sweeteners.

Concerns about technology transfer that could benefit China's military would become more complicated, the report said, as US companies began to invest in China's central regions where China's main military and defence institutions were located. "Accordingly, determining the end user will become more of a burden on US industry," it said.

It said that in the sectors studied – vehicles, aerospace and electronics – advances and increased exports by China "are disproportionately due to foreign investment, capital and technology rather than to indigenous technological advances".

The report said "the most worrisome issue" in China's increasing manufacturing capabilities was that of overcapacity. "The sheer volume of products (even those in high tech sectors) that China is capable of producing is staggering and could have serious global repercussions (as is already apparent in the auto sector)."

US Commercial Technology Transfers to the People's Republic of China. Bureau of Export Administration 202 452 2721)

Bond price fall 'threatens banks'

By Gillian Tett in Tokyo

The recent fall in Japanese government bond prices is threatening to undermine banks' financial positions, a senior government official warned yesterday.

The swings could slash the Y980bn ($8.7bn) worth of unrealised profits on bond and equity portfolios that the banks reported at the end of the first half of the 1998 fiscal year, Hideichiro Hamanaka, deputy commissioner of the Financial Supervisory Agency (FSA), said. "It cannot be ruled out that falls in unrealised bond profits will reduce their financial strength," he said.

The warning comes amid signs of growing tension within the government about the policies now needed to halt the recent surge in bond yields. These have swung from a low of 0.7 per cent last autumn to a high of more than 2.4 per cent last week for the benchmark 10-year JGB.

Some leading Japanese politicians in the ruling Liberal Democratic party have called on the central bank to directly underwrite JGBs. The bank has vehemently refused to do this.

The government is now pressing it to consider raising its purchases of JGBs in the market, rather than directly underwriting them. Some government officials and economists believe that this proposal could be accepted by the central bank when its independent policy board meets on Friday.

The conflict comes against a background of fresh worries over the economy and the bank sector. Yesterday the central bank said the net balance of outstanding bank lending was down 1.4 per cent in the year to January, the second largest fall on record.

Separate government figures showed that machine tool orders were 30.9 per cent lower in the year to December, while household spending was 0.6 per cent lower.

The central bank insists that it is now taking measures to persuade private banks to raise lending. However, the banking sector is under severe pressure in the run-up to end of the fiscal 1998 year. In particular, the FSA is finalising its long-running negotiations with banks about the level of restructuring that it will demand from them in exchange for injecting up to Y25,000bn into their capital bases.

Delhi overshoots borrowing targets

By Mark Nicholson in New Delhi

India's fiscal balance has significantly deteriorated in the past year, according to official data showing that the government has already overshot borrowing targets and incurred 81 per cent of its estimated total fiscal deficit for the year in the first three quarters alone.

The government's latest accounts, released this week on the internet for the first time, show the fiscal deficit had already reached Rs734.3bn ($17.3bn) for the first nine months of the fiscal year ending in March, against Rs414.63bn for the same period a year ago.

The gloomy figures follow admissions from several senior Finance Ministry officials that India is unlikely to meet its fiscal deficit target for the year of 5.6 per cent of gross domestic product, a budgeted cut from last year's 6.1 per cent.

Figures show that India's revenue deficit, the difference between revenue and expenditure excluding interest payments, had already reached Rs364.1bn by December, against just Rs133.8bn for the period a year ago, indicating the degree to which the government is borrowing to finance current spending. Total market borrowing for the period is already 16 per cent higher than the target for the full fiscal year.

With India's budget due on February 27, officials are hoping the government's shaky finances will be bolstered by receipts from recently authorised share "buy-backs" and cross-shareholdings among big state oil and telecoms companies. Officials have also indicated a recent improvement in tax revenue receipts.

The final fiscal deficit figures for this year will also benefit from a recent revision in the base year for pricing the national accounts, which has been shifted from 1980-81 to 1993-94. First official estimates for economic growth under the rebased pricing yesterday put India's GDP growth for this year at 5.8 per cent, led by a strong recovery in agriculture.

The government's monthly balance of accounts is now due to appear regularly, with a month's lag, on the website of the government's *Controller General of* Accounts, *cga.nic.in*, which was launched this week.

Estrada to meet separatist leaders

By Tony Tassell in Manila

Joseph Estrada, the Philippine president, plans to hold direct peace talks later this month with the leaders of a Moslem separatist movement in the country's southern region of Mindanao.

The move follows the breakdown of a tenuous ceasefire between the Philippine armed forces and the Moro Islamic Liberation Front (MILF). Sporadic fighting over the past month has left at least 30 people dead and more than 80,000 displaced.

Discussions between government officials and the MILF, which has been fighting for an independent Islamic republic, have already started this week to lay the framework for more senior level peace talks.

Mr Estrada said he was willing to meet the MILF leader, Hashim Salamat, to try to achieve peace for Mindanao "once and for all". He said the government's opposition to an independent Islamic state was non-negotiable.

The MILF has grown rapidly in recent years after breaking away from the Moro National Liberation Front (MNLF), the main secessionist force, for political and religious reasons.

The MNLF signed a peace treaty in 1996 after more than 28 years of war with the government which paved the way for the creation of an autonomous region comprising four provinces in Mindanao.

The autonomous region is now governed by a council headed by MNLF leader Nur Misuari. A large number of the movement's soldiers have been integrated into the Philippine army and police force.

NEWS DIGEST

CONSTITUTIONAL DISPUTE

Britain defends decision of HK appeal court

The British government yesterday came out strongly in support of Hong Kong's Court of Final Appeal, after the court was bitterly criticised by a Chinese government official on Monday. "Any move to restrict the independent judicial power of the Court of Final Appeal would be a matter of serious concern to us," Britain said.

A ruling by the court last month on citizen rights has been attacked by mainland officials and academics for what they viewed as an attempt to assume powers of China's National People's Congress. The ruling has been widely regarded as the most significant affirmation of Hong Kong's legal autonomy since it reverted to Chinese rule in 1997.

It granted unconditional right of abode to children born to Hong Kong residents, including illegitimate children and those born before their parents became Hong Kong residents. Yesterday, the Hong Kong government said it might send legal experts to Beijing to explain the territory's position. **Rahul Jacob, Hong Kong**

THAI ENERGY

Gas deregulation on way

Thailand's energy regulatory board is today expected to approve the deregulation of the country's natural gas industry, the National Energy Policy Office said.

The move will remove the monopoly on gas transportation and end-user sales currently held by the state-owned Petroleum Authority of Thailand (PTT) and is a necessary precursor to the privatisation of PTT scheduled for next year. It will also help promote competition in the market for fuel supply for a number of privately-owned electricity generating stations currently being built.

At present natural gas producers in Thailand such as Unocal and Total must sell their gas to PTT, which then distributes it to end users via its pipeline network. Producers and other intermediaries are expected to be given access to PTT's pipeline network by paying a user fee. **Ted Bardack, Bangkok**

MALAYSIAN JUDGE

Court setback for Anwar

Anwar Ibrahim, the sacked deputy prime minister of Malaysia, cannot defend himself with the theory that he is the victim of a high-level political conspiracy, a judge ruled yesterday.

"Any issue of political conspiracy against the accused, if any, is irrelevant," Augustine Paul, the high court judge, said. The judge said the defence had to stick to introducing evidence that related to the abuse of power charges now being considered.

The decision marked a significant setback for Mr Anwar, whose attorneys had said that conspiracy would be the centrepiece of their defence against charges that Mr Anwar abused his power to conceal sexual misdeeds. But they said they would now attempt to prove a conspiracy by the police. **Sheila McNulty, Kuala Lumpur**

Supreme Court blow for Indonesian banks

By Sander Thoenes in Jakarta

Indonesia's Supreme Court yesterday rejected an appeal by a group of banks to be allowed to sue a company for bankruptcy, dealing yet another blow to a banking sector that is sinking under bad loan portfolios.

The banks, led by the International Finance Corporation, the private lending arm of the World Bank, wanted to sue Dharmala Agrifood, part of the Dharmala Group of Indonesia.

The judges ruled that IFC should have relinquished its rights as a secured creditor before suing, although the law does not require that.

Lawyers have complained of corruption among the judiciary but also accuse the government of discouraging bankruptcies, for fear of fuelling unemployment and hurting well-connected businesses.

One newspaper reported last month that ministers had ordered state banks to stop seizing collateral from small enterprises, in support of a government effort to boost this sector.

Bankers point to the failure of most bankruptcy suits and the unwillingness of state banks to push for loan repayment as a significant cause of the steady deterioration of Indonesian loan portfolios. Bank Indonesia reported last week that total bank equity had dropped to minus Rp98,000bn ($11bn) by year-end, with state bank equity losing Rp25,000bn in just one month.

Officials estimate that the new Bank Restructuring Agency will take over between Rp100,000bn and Rp200,000bn in bad loans from recapitalised banks, including at least Rp74,000bn from four state banks which are to be merged.

The World Bank yesterday approved the release of a $400m loan to Indonesia, the second tranche of a $1bn policy reform support loan approved last year.

Economy will test Jordan's new king

King Abdullah needs to please foreign investors without upsetting the poor, writes Judy Dempsey

When Jordan's Prince Hassan, former crown prince and brother of the late King Hussein, appointed a government last year, he insisted economic reforms be coupled with a safety net for the poor.

Last month, the government reduced – for the poor – the price of a standard loaf of bread, from 300 fils (28 US cents) per kilogram to 150 fils. It also promised to maintain the price for a year and carry any increases in flour prices.

The subsidies cost the finance ministry JD15m ($21m), miniscule by international standards, but high by Jordan's, which last year had a gross domestic product of $7.5bn, the equivalent of $1,600 per capita.

The decision to reintroduce bread subsidies is an illustration of the difficulties the new King Abdullah faces.

If he wants to revive International Monetary Fund-backed reforms to attract foreign direct investment – a miserable $100m last year – he risks social unrest, as witnessed by the 1996 riots. They were precipitated by IMF-supported bread price rises. His army unit was involved in quashing them.

If he puts a brake on reforms, Jordan will remain an economic backwater for investors, who already privately bemoan the rampant corruption, kickbacks and lack of transparency in tenders.

With few natural resources at his disposal – except potentially lucrative phosphate and bromine deposits – King Abdullah has limited options.

Further afield, Israel continues its economic stranglehold on the West Bank, preventing Jordan from exporting there. United Nations sanctions on Iraq have robbed Jordan of its main trading partner.

In short, from the economic point of view, it is not an auspicious start for King Abdullah.

Such a shaky start may explain why the Clinton administration and Saudi Arabia have tried to modify his economic inheritance in a bid to shore up the Hashemite kingdom's stability.

The US said it would ask Congress to provide quickly an earlier promised $300m in additional bilateral assistance. According to Asharq al-Alsat, the Saudi-owned newspaper, Saudi Arabia will meet all of Jordan's oil needs, restoring the 40,000 barrels a day it stopped in late 1990 after Jordan refused to join the US-backed military alliance against Iraq. The Gulf states, according to Jordanian officials, have started shoring up the dinar by depositing dollars in Amman banks.

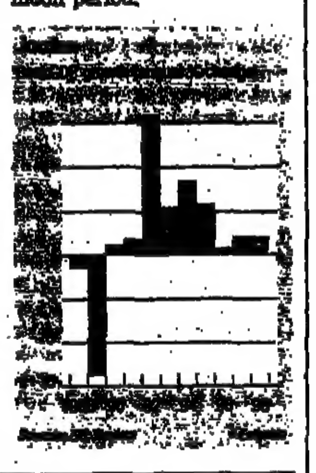
Michel Marto, Jordan's finance minister, has welcomed such gestures. But the minister, who for the first time has consolidated the budgetary accounts, knows the next few months will be crucial for the economy.

As a percentage of gross domestic product, the deficit is 9.6 per cent, excluding grants and assistance. But for the first time, the 1999 budget includes the debts of the Palace, the water authority, enterprise debts amounting to more than 1 per cent of gross domestic product, and unpaid public sector arrears of JD50m.

The second pressure is the external debt. Total external debt last year amounted to $6.8bn, or 90 per cent of gross domestic product, while foreign currency reserves amount to about $1bn, enough for three months of imports. But this year, at least $300m payments of principal on external debts fall due.

An IMF delegation is in Jordan to negotiate terms of a new three-year structural adjustment programme. Mr Marto said he hoped the IMF would provide $250m over the next three years, during which time Jordan would speed up privatisation and modernise its infrastructure.

It is an ambitious programme, depending as much on the political will to implement reforms as the international community's willingness to support the new king. With the latter running high, palace officials hope for a fruitful honeymoon period.



Zimbabwe 'in state of crisis'

Zimbabwean civil rights groups said yesterday President Robert Mugabe's government was in its worst crisis since independence, Reuters reports from Harare.

They said the arrest and alleged torture of local reporters and a broadside by Mr Mugabe against the judiciary undermined the law and showed increasing militarisation of the state.

"By any standard of democratic governance, the Zimbabwe government is in a state of crisis," the National Constitutional Assembly (NCA), a coalition of church, human rights and trade union groups, said in a statement.

They said Mr Mugabe was leaning more and more towards the more "militarist and commandist" wing of his government.

Mr Mugabe at the weekend delivered one of his strongest attacks on his opponents, telling supreme court judges who had urged him to reaffirm his government's respect for the law to quit.

The judges' action came after the military refused to obey a high court order to release two journalists for the Standard newspaper who had alleged there had been an army plot against Mugabe. A medical examination backed up the men's claims that they had been tortured in detention.

Mr Mugabe also told the press to expect no protection if it "wilfully suspends truth", and accused human rights watchdogs of undermining the loyalty of institutions such as the army.

Tougher bank rules for Israel

The Bank of Israel said yesterday it planned to raise capital adequacy requirements for Israeli banks to 9 per cent from 8 per cent but denied the measure signalled concerns about the health of the system, Reuters reports from Jerusalem.

Banking officials said the rise was aimed principally at Bank Hapoalim, whose capital adequacy ratio fell to 8.4 per cent after the bank booked a special Shk1bn ($245m) dividend payout in the third quarter of last year.

Hapoalim, Israel's largest bank, was acquired from the Israeli government by an investor group led by Ted Arison in September 1997 in a leveraged buyout.

"There is the matter of privatisation. Some of the banks were acquired with loans and (the owners) want to repay them," said a central bank official who spoke on condition of anonymity.

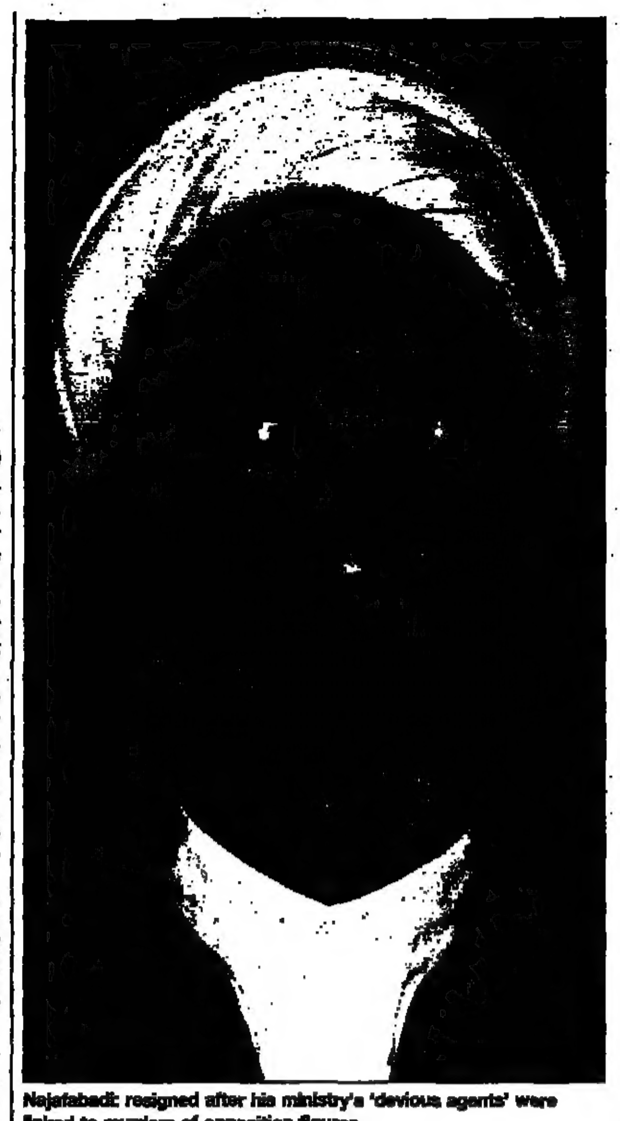
"There is a difference when a bank is owned by the state, which doesn't take out profits, and when it is controlled privately by owners who do."

The Bank of Israel denied that the measure, to be discussed at a February 17 meeting of the bank supervision committee, signalled any concern about the stability of the Israeli banking system.

A Bank of Israel official said, however, that it was taken in light of the Asian financial crisis that showed the key role banking stability played in the overall economy.

IRANIAN POLITICS CONSERVATIVE DEPARTS AFTER MURDERS OF OPPOSITION FIGURES

Victory for Khatami as Iran's intelligence minister resigns



Najafabadi: resigned after his ministry's 'devious agents' were linked to murders of opposition figures

By Robin Allen in Dubai

Mohammad Khatami, Iran's reformist president, appeared to have won another round in the long and complex power struggle with conservative hardliners yesterday with the resignation of Qorbanali Dorri Najafabadi, the intelligence minister.

The intelligence ministry, known officially as the information ministry, is responsible for both internal security and foreign espionage.

Officially it is answerable not to the president but to Ayatollah Ali Khamenei, Iran's supreme spiritual leader, and the ultimate arbiter of Iran's foreign policy. Ayatollah Khamenei also controls state radio and television, the armed forces and Iran's Revolutionary Guards.

According to Tehran state television, Mr Najafabadi said he was leaving his post "to create a suitable atmosphere and the necessary conditions for this powerful ministry to carry out its duties".

Many of Mr Khatami's supporters had accused the intelligence ministry, and the minister himself, of being implicated in the murder and unexplained disappearances of six prominent secular writers and nationalist politicians toward the end of last year.

Calls for Mr Najafabadi's removal became more insistent when last month the ministry disclosed that its own "devious agents" had been involved in the murders. Subsequent investigations by a specially convened three-man committee led to the arrest of 10 "rogue agents" from the secret police. They and others are still being questioned. None has yet been named.

Despite calls last month for his removal, Mr Najafabadi not only remained in place but was Ayatollah Khamenei's nominee on the committee, alongside Abdol-Vahed Moussavi Lari, the interior minister and Mr Khatami's own choice.

Heading this committee, as the joint nominee of both Ayatollah Khamenei and the president, is Ali Yunesi, a conservative cleric and head of Iran's military tribunals who is now tipped by the state news agency's Iran Daily, to be the next intelligence minister.

Najafabadi's resignation is 'a definite plus' for President Khatami's insistence on the rule of law

According to analysts in Tehran, Mr Najafabadi's departure reflects more his reluctant acceptance of "ministerial responsibility" for the actions of ministry employees, rogue agents or not, rather than any acknowledgement that he himself knew what was being done either under his authority or under the cloak of the ministry.

To that extent, his resignation, according to one analyst, is "a definite plus" for Mr Khatami's insistence on the rule of law.

Mr Najafabadi's resignation statement, however, which refers to "recent painful events leading to ruthless attacks by domestic and foreign enemies against the country's great security apparatus and its dedicated personnel," is hardly an acknowledgement of ministerial involvement in last year's murders; still less of his own complicity.

Mr Najafabadi, analysts point out, remains on the special team investigating the recent murders.

None of these factors, however, dents the widespread impression that Mr Khatami's moderate campaign for the respect of law is eroding the secretive control of the conservative hardliners and steadily discrediting the more violent elements among them.

These factors enhance the president's authority, and are all the more important, analysts say, if the reformists are to come out on top in nationwide local elections later this month.

'Shakespeare' leads Oscar nominations

By Christopher Parkes
in Los Angeles

Hollywood's film pundits have set the scene for a competitive Oscars night in March with a near-record 13 nominations for *Shakespeare in Love* and 11 for *Saving Private Ryan*, the early favourite to sweep the board.

Already laden with three Golden Globes, a clutch of nominations from the Writers' Guild of America, and five from the Screen Actors' Guild, *Shakespeare in Love* appears to have the edge over Steven Spielberg's second world war drama.

Life is Beautiful gained rare distinction with nominations for best picture and best foreign film, and three more to virtually guarantee a big night for Roberto Benigni, the Italian clown who starred and directed.

Although Joseph Fiennes, who plays the bard with writer's block in the Shakespearean comedy fantasy, was passed over in the acting categories, the film has won a place in run-offs for all the other main awards, including best film, director, actress, original screenplay, art direction and cinematography.

The SAG membership, which accounts for the biggest single block of votes in the Academy of Motion Pictures Arts and Sciences annual ritual, gave *Saving Private Ryan* two nominations in its list last month.

The actors' awards will be announced on March 7, followed by the Oscars on March 21, in a broadcast that could attract a record international audience, and big ratings for Walt Disney's ABC network, its US distributor.

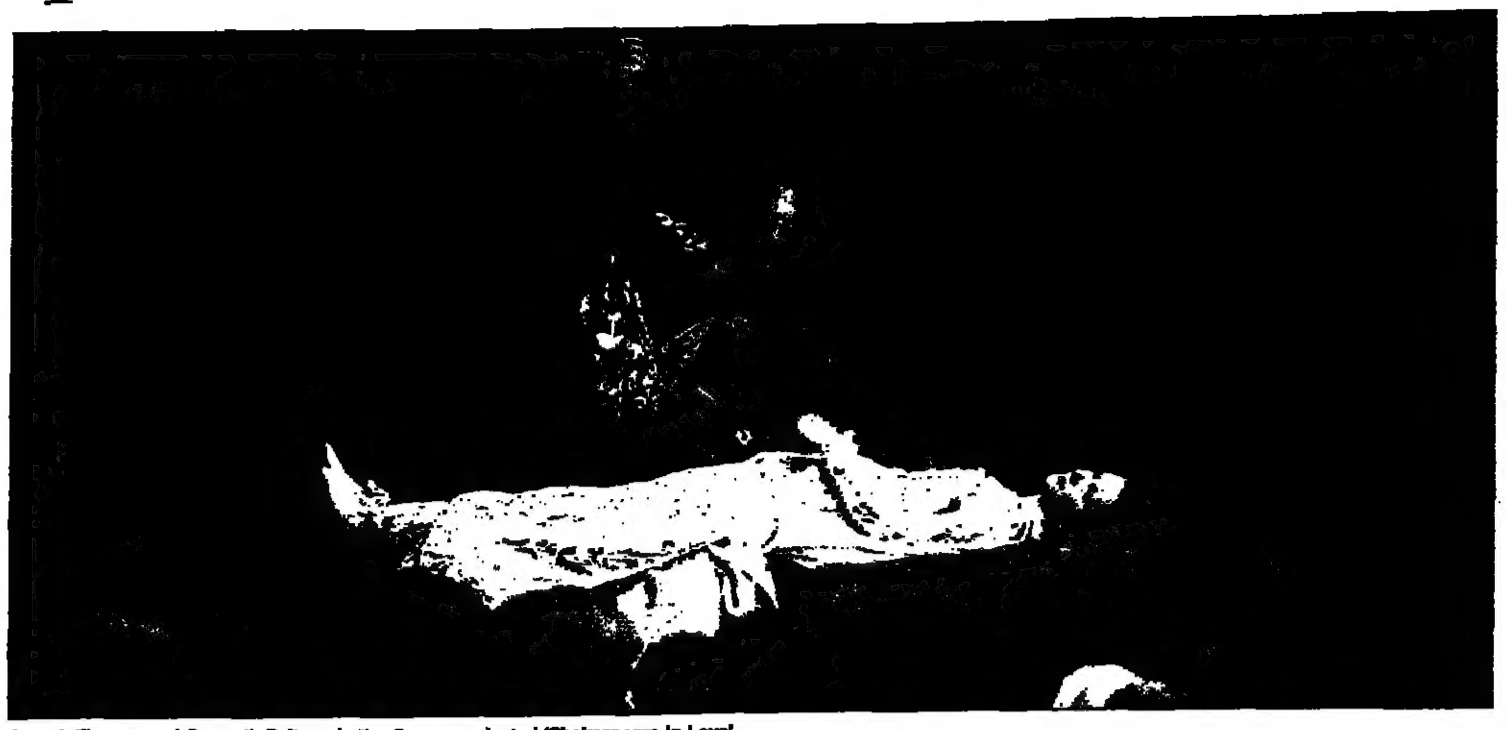
The show has already been moved from its traditional Monday slot to Sunday evening in an attempt to draw weekend viewers.

Interest is likely to be piqued by the unusual and narrow range of topics covered by the best picture nominations.

Films from the second world war, out of favour for more than a decade, are represented by the efforts of Mr Spielberg, Mr Benigni and *The Thin Red Line*, the first film from Terrence Malick in more than 20 years. *Elizabeth* completes the list. Overseas viewers will also be drawn by the strong international flavour to the list of finalists.

Much of *Saving Private Ryan* was filmed in Ireland. The British flavour is especially strong with *Elizabeth* nominated several times and Sir Ian McKellen emerging as a potential winner among the best actors for his part in *Gods and Monsters*.

Disappointments for US cinema fans included the exclusion of John Travolta, fancied for his part in *A Civil Action*, and Jim Carrey who made an early hit last year in *The Truman Show*.



Joseph Fiennes and Gwyneth Paltrow in the Oscar nominated 'Shakespeare in Love'

US wages in biggest gain for 12 years

By Gerard Baker in Washington

US workers recorded their biggest wage gains in 12 years in 1998 as their productivity continued to grow at rates not seen since the mid-1980s.

Non-agricultural employees' hourly pay, adjusted for inflation, rose 2.6 per cent last year, the Labour Department reported yesterday. This is the largest increase since a 3.2 per cent gain in 1986 and underlines the strength of the economy eight years into the current expansion.

But the pay increase was paid for by another significant rise in productivity, or output per hour, of 2.2 per cent in 1998. That kept unit labour costs, a vital indicator of inflationary pressures, in check. In 1998 as a whole, those costs in the non-agricultural economy grew by just 2 per cent, down from a rate of 2.3 per cent a year earlier.

The past three years have been the most impressive for productivity growth for more than 10 years. The average rate of productivity growth of nearly 2 per cent was double that achieved in the previous seven years. Most striking has been the growth in output per hour at manufacturing companies.

In the fourth quarter of last year, manufacturing productivity expanded by 5.6 per cent. For 1998 as whole the increase was 4.3 per cent, the third consecutive year of gains above 4 per cent. Between 1989 and 1995 the average growth was just 2.5 per cent.

That has led some economists to argue that the US has experienced an economic miracle in the late 1990s, as massive investment in information technology and other capital equipment has enabled the economy to grow at faster than previously estimated rates without prompting a resurgence of inflation.

In the past three years overall growth has averaged more than 3.5 per cent per year, well above the 2.4 per cent rate most economists have regarded as the economy's "speed limit". Yet inflation has actually dwindled to almost zero in the past year.

Some economists think productivity gains must hold the key, but other analysts remain sceptical of the idea that the economy has been transformed. They point out that productivity growth tends to accelerate when overall demand growth accelerates, as companies get greater output from existing resources, while inflation has been held back by falling commodity prices and a strong dollar.

In the last three months of last year productivity grew at a seasonally adjusted annual rate of 3.7 per cent in the non-agricultural economy, the Labour Department said.

NEWS DIGEST

IMPEACHMENT

Clinton trial moves into its final phase

President Bill Clinton's impeachment trial limped into its final phase yesterday as the US Senate moved behind closed doors to deliberate the charges against him.

With even the House prosecutors admitting that their closing arguments on Monday had changed few minds, the only real suspense left is whether there will be Republican defections in the final vote and if the Senate will agree to censure the president.

Achieving the two-thirds majority required to convict the president on the two articles charging him with perjury and obstruction of justice in the Monica Lewinsky affair has long been out of reach.

But several Republicans are now expressing doubts about the first count, raising the possibility that the Senate might not even secure a simple majority in favour of removing the president from office. A motion to open the deliberations to the public failed after Trent Lott, the Senate majority leader, decided not to support the proposal. The vote in favour of open discussions was 59-41, falling short of the two-thirds required. However, senators will be given the opportunity to make public their statements after the final decision. **Mark Suzman, Washington**

WORLD BANK

Drive to improve image

Keen to improve the image of the World Bank, the head of its staff association has asked his colleagues for anecdotes that "define the values [of the] Bank group" for a forthcoming anthology.

This would describe "life in the trenches and on the front lines of the Bank group's war on poverty", said Jamil Sopher. "No anecdote is too small or too trivial," and if the stories were entertaining "so much the better".

In an internal memo Mr Sopher bemoaned the "terrible beating in the media over the past 15 years". The Bank's image in borrowing countries has sunk to new lows. "We are consistently characterised as supporting entrenched regimes and enabling the elite to get richer while the poor sink deeper into poverty under the weight of Bank-sponsored programmes to increase taxes, increase food prices, increase electricity rates and increase irrigation charges," wrote Mr Sopher. **Nancy Dunne, Washington**

BRAZILIAN STATES

Stalemate in talks on debt

The Brazilian government remained locked yesterday in a political stalemate with the seven states led by opposition politicians after a meeting with ministers to discuss the states' debt repayments.

Three of the rebel governors met Pedro Malan, finance minister, and two other ministers to try to find a solution to the stand-off, which is undermining the government's efforts to reduce its fiscal deficit.

"The meeting was not conclusive on any point," said Anthony Garotinho, governor of Rio de Janeiro, the second wealthiest state.

The impasse contributed yesterday to the further weakening of the Real against the dollar, which by mid-afternoon was trading at R$1.94, having closed at R$1.92 on Monday evening.

The Real has now devalued 38 per cent since the government abandoned its dollar peg on January 13. Economists said the currency could remain under pressure throughout February because of heavy expected external debt repayments.

The seven opposition governors are demanding the federal government opens renegotiations over the debt financing deals they signed with Brasilia last year, alleging they are unable to meet the terms. ***Geoff Dyer, São Paulo***

On the web today
● Venezuela braced for cost-cutting measures
● New Hampshire keen to remain state that would-be presidents woo first ● Peru treads a fine line
● Mexico tightens line on detention
http://www.ft.com/americas

Beef ruling puts pressure on Brussels

By Guy de Jonquières in London and Neil Buckley in Brussels

The European Commission will today take the first steps towards deciding how to respond to a World Trade Organisation ruling against the European Union's 12-year-old ban on hormone-treated beef.

Commission members are expected to approve a paper which sets out options for meeting the EU's WTO obligations and averting the threat of a bruising trade confrontation with the US.

The EU has until May 13 to comply with a World Trade Organisation ruling upholding a US complaint that the ban violates multilateral trade rules, because it is not supported by adequate scientific evidence.

The US has warned the EU that, if it ignores the ruling, it will face the risk of trade retaliation and a confrontation which could dwarf the two sides' recent conflict in the WTO over bananas.

Washington wants the hormones ban lifted as soon as possible. However, US officials have indicated that they recognise that could arouse fierce political controversy in the EU and are prepared to consider other ways of resolving the dispute.

Sir Leon Brittan, trade commissioner, is keen to open talks with the US soon. But he needs a broad mandate from the EU Council of Ministers, several of whose members face strong domestic opposition to sales of hormone-treated beef.

The Commission's option paper is intended to make the Council and the European Parliament aware of the need to resolve the issue. It was drawn up under the authority of Jacques Santer, its president, in co-operation with Sir Leon, Franz Fischler, agriculture commissioner, and Emma Bonino, responsible for consumer safety.

The EU has commissioned several scientific risk assessments, to determine whether hormone-treated beef endangers health. However, the results will not be complete until early next year.

One option suggested in the Commission's paper is to keep the ban in place and negotiate with the US compensation for loss of trade, in the form of lower barriers to other agricultural exports.

Another possibility would be to pay temporary compensation until the results of the risk assessments were known, and reinstate the ban permanently if it was shown to be scientifically justified.

If the ban were found to have no scientific base, the third option would be to lift it, possibly subject to a scheme for labelling hormone-treated beef. The US, which would have to agree to such a scheme, says it is ready in principle to discuss the idea.

A spokesman for the US trade representative cautiously welcomed today's Commission debate. However, he said the EU still had to show it was serious about resolving the dispute and warned that the US had not ruled out sanctions.

Utilities jockey for supremacy in liberalised power markets

Andrew Taylor charts the surge in cross-border electricity acquisitions

Electricity markets are becoming increasingly international as a result of a record number of cross-border acquisitions last year, led by US and European companies.

Privatisation and liberalisation of power markets prompted a surge in the enterprise value (including acquisition of debt) of international electricity deals to $49.7bn during 1998.

This was almost 36 per cent higher than in the previous year, according to the global energy and mining division of PwC, the accountants, in an analysis of cross-border electricity deals.

The biggest spending on acquisitions, strategic stake-building and privatisation issues took place in Europe, where the value of international transactions almost doubled to more than $20bn.

The value of investments in emerging countries in South America and the Asia-Pacific region, however, fell sharply, reflecting economic problems in those areas.

From next week European Union countries will be required, under an EU directive, to open up just over a quarter of the region's electricity market to competition.

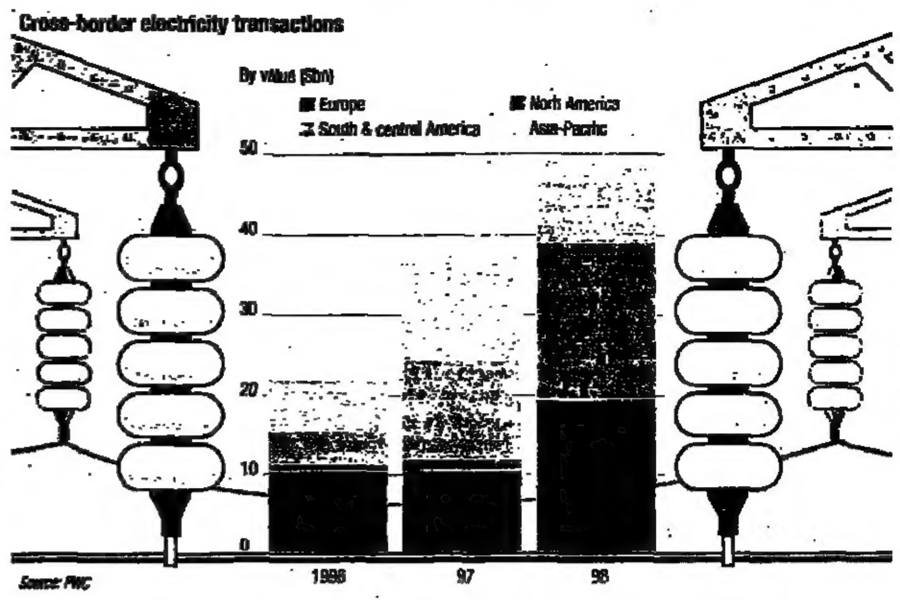
The prospect is expected to prompt further cross-border takeovers and stake-building as powerful domestic utilities seek to reinforce their position in the more competitive market.

EdF, the French state-owned electricity company, in one of the biggest deals last year, bought London Electricity, the UK capital's supplier, in a deal worth $3.2bn.

Imatran Voima (IVO), the Finnish power group, used its Swedish subsidiary, Gullspangs Kraft, to purchase Stockholm Energi in a deal worth $1.95bn, triggering a further realignment of the Nordic power market.

Large European electricity companies were also active in other overseas markets as they searched for greater growth potential.

Simon Allen, European head of utilities at PwC's financial advisory services, said: "European bidders accounted for 59 per cent of all cross-border deals by value in the electricity sector. US bidders accounted for another 37 per cent."



US electricity markets are also in the process of being liberalised. This has encouraged European utilities to reverse the recent transatlantic trend of US power companies making acquisitions in Europe.

Total international investment in North American electricity assets jumped from $1.4bn in 1997 to $19bn last year, driven mainly by European interest.

The two biggest US deals, including acquisition of debt, involved two UK utilities: Scottish Power's $11.8bn agreed purchase of PacifiCorp and National Grid's $4.6bn agreed bid for New England Electrical Systems. Both offers have still to be approved by US authorities.

Sithe Energies, which is 60 per cent-owned by Vivendi, the French multi-utility and 29 per cent by Marubeni, the Japanese trading company, bought 23 power plants from the energy group GPU for $1.68bn and another 12 from Boston Edison for $657m.

Swiss and German companies also made US power acquisitions.

"If these deals are successful," said Mr Allen, "they could open the door to more transatlantic deals with European utilities facing deregulation in their home markets, looking for growth opportunities in the liberalising markets of North America."

US companies, although less predatory than of late in European markets, still accounted for the largest deal last year: Texas Utilities' $12.52bn takeover of Energy Group, the UK's largest electricity supplier.

The US was also the most active single country in terms of the number and value of international purchases, accounting for almost a third of all cross-border acquisitions last year.

French companies, led by EdF and Vivendi, were the most active European bidders, accounting for 15 per cent of deals either completed or agreed.

The privatised UK electricity market remained the top European target for foreign investors despite the decision by some US owners to sell recently purchased UK subsidiaries.

The largest fall in activity was in the Asia-Pacific region, reflecting a slowdown in investor interest after the economic problems that began with the collapse of the Thai currency in mid-1997. The total value of cross-border electricity acquisitions in the region fell to $2.6bn last year from $12bn in 1997.

There are signs, however, that invester confidence is beginning to return, particularly in the Philippines and Thailand.

Presidents inaugurate S America pipeline

By John Barham in São Paulo

The presidents of Brazil and Bolivia yesterday inaugurated the first stage of a $2.1bn pipeline linking gasfields in eastern Bolivia with consumers in southern Brazil.

The 2,000km pipeline, the continent's biggest infrastructure project, will begin delivering gas to São Paulo, Brazil's commercial capital, in March. Later this year developers plan to extend the line 1,000km to the southern city of Porto Alegre.

Petrobras, the Brazilian national oil company, is the pipeline's main shareholder. It selected a consortium comprising British Gas, El Paso and BHP Power to develop the pipeline, which will transport up to 30m cubic metres of gas a day once production has been fully ramped up.

Construction began in 1997, a year after Brazil and Bolivia signed a treaty allowing the gas to be transported. However, the project was first proposed as long ago as 1938.

The pipeline will provide a lucrative market for Bolivia's large gas fields and broaden Brazil's sources of energy. Nearly all Brazil's electricity comes from hydro-electric dams which are subject to unpredictable rainfall levels. The government's withdrawal from the electricity industry means private capital is unlikely to invest in new hydro-electric dams.

Local and international development banks and export credit agencies provided debt finance for the project, while Petrobras and its partners injected $885m in equity.

Critics of the project say the Brazilian government has not built up a large enough distribution network to take all the gas, which they also say is priced too high.

The São Paulo state government, which hopes to sell its gas distributor Cogaf in April for up to R$2bn (US$1.1bn), says it plans to auction concessions enabling private investors to set up new distribution networks and so increase gas consumption.

The pipeline is a central feature of investment by British Gas in South America. BG owns 0.4 per cent of the pipeline and its recently discovered gas reserves in Bolivia will later feed the pipeline.

S Africa planning $5bn arms purchase

By Victor Mallet in Cape Town

South Africa's plans to buy R30bn ($5bn) of weapons from European manufacturers to re-equip its armed forces should be finalised by mid-year, Joe Modise, defence minister, said yesterday. "We expect to sign this agreement hopefully around May or June," Mr Modise said.

The government has named "preferred suppliers", including the Saab-British Aerospace partnership for the sale of Gripen fighter aircraft, but has yet to sign firm contracts.

Mr Modise, who has overseen a sharp cut in South Africa's defence budget since the end of apartheid in 1994, emphasised the urgency of replacing obsolete equipment so that South Africa could protect its marine resources from being "plundered" by foreign fishing fleets. Senior defence officials say fishing boats from countries such as Japan and the Philippines have been taking valuable catches around Marion Island, the South African territory in the south Atlantic.

"If we send a submarine to those islands, I'm not sure it will return safely. We might have to tow it back," Mr Modise said. "That's how bad things are in the navy... The equipment is completely obsolete and it's got to be replaced."

Mr Modise faces resistance to his spending plans from Trevor Manuel, finance minister, who has insisted that the proposed purchases of fighter and trainer aircraft, helicopters, ships and submarines must pass an "affordability check".

But the pill has been sweetened by one of the largest recorded "offset" programmes. In exchange for selling R30bn of weapons, suppliers have promised to invest R26bn and create 65,000 jobs in military and civilian industries.

Projects include a new floating dry-dock for Durban and investments in the steel and motor components sector. Filk, the Italian jewellery manufacturer, has proposed a factory to make gold chains as part of the offset for Agusta's supply of 40 helicopters.

South African defence companies, which grew rapidly under apartheid because of sanctions, suffered a blow yesterday when Saudi Arabia shelved a $1.7bn deal to buy South African howitzers and pilotless planes.

FOREIGN OFFICE MPS' REPORT SAYS MINISTERS SHOULD HAVE HAD EARLY WARNING OF SIERRA LEONE ARMS PLAN

'Arms-to-Africa' officials condemned

By Andrew Parker, Political Correspondent

Senior officials in the Foreign Office were yesterday condemned by MPs for failing to give ministers early warning of the "arms-to-Africa" affair.

Donald Anderson, chairman of the House of Commons foreign affairs committee, which produced a report on the issue, said a department that *prided itself* on being the Rolls-Royce ministry of government was on closer examination operating like an old and decrepit car.

Tony Blair, the prime minister, yesterday dismissed *the MPs' severe criticism. He* took the highly unusual step of attacking the report by the Labour-dominated committee, which said the Foreign Office should be assessed by management consultants.

The report highlights how the Foreign Office in London wrongly gave the impression *to its overseas staff and par*liament that the UN arms embargo applied only to the junta that ousted Sierra Leone's elected government in May 1997. This led Peter Penfold, British high com*missioner to Sierra Leone,* wrongly to give a degree of approval to a plan by Sandline International, a London-based company, to help the exiled government.

The report also says three senior officials – Sir John Kerr, permanent under secretary, Richard Dales, director of the Africa command, *and Ann Grant, head of the* Africa equatorial section – failed in their duty to alert ministers to Sandline's supply of arms to Sierra Leone.

"The way in which no one with a right to put papers up to *ministers ... did in fact do* so reveals at best political naivete, and at worst ... contempt for civil servants' duties towards their ministers," the report adds.

The "arms-to-Africa" affair erupted in May when it emerged that Sandline had apparently breached a UN embargo *by supplying arms to Sierra Leone. Sandline* claimed it had approval from the UK government. That embarrassed Robin Cook, foreign secretary, and his drive to bring an "ethical dimension" to foreign policy.

Mr Cook initially appeared to blame officials but declined to take disciplinary action after criticism from an independent inquiry in July. The independent inquiry cleared Foreign Office ministers and officials in London of authorising Sandline's supply of arms worth $10m to the ousted government in February last year. But the committee says it cannot conclude with "absolute certainty" that officials explicitly told Sandline in January 1998 "that arms supplies to [the ousted government] were illegal".

The report criticises Mr Cook for initially refusing access to documents and blocking its request *to speak* to MI6.

Michael Howard, the opposition Conservative party's shadow foreign secretary, called for Mr Cook's resignation. Conservative committee members did not endorse the report because they wanted to criticise ministers to a greater extent.

EUROPEAN REGIONAL AID JOINT DELEGATION WARNS THAT CUTS COULD COME AT JUST THE WRONG TIME

Northern Ireland urges EU to preserve funding

By Ralph Atkins in Bonn

Senior Northern Ireland politicians voiced optimism yesterday that Brussels and Bonn would back granting the region special status under European Union regional aid rules, avoiding a threatened funding cut.

Speaking in Bonn, David Trimble, first minister in the new Northern Ireland administration, warned that the region could face "a very significant reduction at just the wrong time" if normal criteria were applied.

Germany holds the EU presidency and is seeking agreement on the so-called "Agenda 2000" overhaul of European finances at a summit in Berlin at the end of next month. Bonn wants strict financial disciplines imposed ahead of the EU's planned enlargement to include former Communist countries in eastern Europe.

In the past six years, Northern Ireland has received Ecu1.7bn in EU funding but is set to lose its "Objective One status", the most beneficial category for less well-off regions.

The Northern Ireland delegation held talks with Günter Verheugen, European minister in the Bonn foreign ministry. It was met earlier in Brussels by Jacques Santer, Commission president.

Mr Trimble said: "This is not the time for the people of Northern Ireland to be told their achievements, in terms of moving away from violence and towards peace, are to be rewarded in a cut in support from the European Union." He said maintaining existing levels of EU aid would not set a precedent because Northern Ireland was "absolutely unique". The region needed help moving away from an economy dominated by the public sector.

Seamus Mallon, deputy first minister, said the delegation was "very pleased with the response" from its discussions. He said it would be a "tragic irony" if the EU came up with a package for Northern Ireland, but local politicians "were not in a position to take it on". The peace process is threatened by the pro-British unionists' insistence that the Irish Republican Army begin to disarm before Sinn Féin, its political wing, takes seats in the new executive.

NEWS DIGEST

LONDON AIRPORTS

Italian flights expected to boost passenger numbers

London's Stansted airport is today expected to announce a 50 per cent increase in passenger numbers for January, fuelled by a battle between airlines offering low-fare services to Italy. Congestion at the much bigger Heathrow and Gatwick airports has led to a rapid increase in airlines beginning new services from Stansted, north-east of the capital. Passenger numbers at the airport are expected to *rise 32 per cent to 7.25m in the year to March, with more* than 40 per cent of the increase coming from services to Italy. The expected rise compares with an increase of 11.1 per cent to 5.5m in the year to March 1998. Until last year, KLM UK, which flew to Milan, was the only airline operating from Stansted to Italy. But Alitalia has begun services to Turin. Go, the British Airways low-cost offshoot, and Ryanair, the Irish no-frills airline, have begun flying on several Italian routes from Stansted. Ryanair is expected to announce new services from Stansted to Italy today. Michael O'Leary, chief executive, said yesterday the impact of Ryanair and Go "has resulted in a massive cannibalisation of BA's market share". **Michael Skapinker, London**

RAIL SERVICES

Virgin places order with Alstom

Virgin Rail yesterday placed a £1.25bn ($2.05bn) order for 53 225kph tilting trains with Alstom, the Anglo-French rolling stock manufacturer. Fiat Ferroviaria, of Italy, will supply the tilting technology. The trains will be assembled at Alstom's Washwood Heath factory in the English Midlands. This is the biggest UK rail contract for several decades and marks a high point in the revival of the rail supply industry following rail privatisation, Alstom said. The rolling stock contract complements a £2.1bn scheme for Railtrack, the rail infrastructure owner, to upgrade the 880km west coast line between London and Scotland – which was last modernised in the late 1960s and 1970s – with new track, signalling and train control systems. **Charles Batchelor, London**

THE ECONOMY

Downturn 'not as bad as 80s'

Manufacturers believe the current downturn will not turn out to be as bad as the recessions of the early 1980s and 1990s, according to a survey yesterday. The Confederation of British Industry, the employers' lobby, and Business Strategies, a consultancy, reported that manufacturers' confidence is still falling though at a slower rate than at the time of the previous survey, in October. Conditions will remain difficult until at least the end of the year, by which *time the sector will have been in technical recession* – successive quarters of falling output – for more than a year and a half, said Sudhir Junankar, the CBI's associate director of economic analysis. Last week's interest rate cut is expected to have made little immediate improvement, added Mr Junankar. "There are clear signs of deflation in manufacturing – prices are the weakest since 1958," he said. "The recent cuts in interest rates aren't enough to turn things around, although they do have an ameliorating effect." **Melanie Carroll, London**

EXPORTS

Minister urges languages drive

Companies are losing billions of pounds of exports every year because of poor language skills, Brian Wilson, trade minister, said yesterday. "Failure in the ability to communicate effectively and efficiently with lucrative export markets in Europe, Latin America and Asia Pacific means that for many British firms more than a quarter of their potential revenues are at risk," Mr Wilson told the launch of the National Languages for Export Awards in London.

The UK has the poorest language skills base in the European Union, with 74 per cent of UK companies saying they have employees with foreign language skills compared with 89 per cent in Germany and 84 per cent in France. Sir Peter Parker, chairman of the National Languages for Export Campaign, said: "Today UK exports to traditionally English-speaking markets make up only 25 per cent of total exports. Furthermore, more UK firms have been involved in takeover, merger and joint venture activities worldwide than any other European country over the past two years." **Sathnam Sanghera, London**

Changes to licence plate lead to truck sales dip

Statistics from the Society of *Motor Manufacturers and* Traders show that registrations of new commercial vehicles fell by more than 11 *per cent, year on year, to* 20,682 in January, John Griffiths writes. As with car registrations – which fell by nearly 22 per cent in January – the industry does not regard the declines as indicative of imminent recession.

Dealers say many commercial vehicle operators, along with car owners, are delaying taking delivery until the T licence-plate prefix becomes available on March 1. The dip is not as pronounced as with cars because vans and trucks are less likely to be discretionary purchases and some *operators remain on fixed* ordering cycles.

The SMMT expects the decline to continue in February as more buyers opt to wait for the T plate. A similar pattern is expected in July and August in the run-up to the introduction of the V plate on September 1.

The patterns mean March *and September* are expected each to account for around 15 per cent of the year's sales – twin peaks that are much more manageable for dealers than the previous system of an annual prefix change on August 1. Last year around a quarter of the year's car sales were bunched into August, with a slightly smaller peak for commercial vehicles.

The resistance to "impulse" buying in the trucks sector shows up in the year-on-year fall of only 3.3 per cent to 3,740 for vehicles over 3.5 tonnes. Registrations of light vans, mainly derived from cars, were 11.8 per cent lower at 5,981 and those of panel vans by 13.5 per cent to 9,765.

UK new car registrations: January 1999

	Volume	% Chg	% Share
Total Market	181842	-21.6	100
UK Produced	52361	-31.8	28.8
Imports	129481	-16.7	71.2
Japanese makes	11794	-27.5	6.5
Ford group	31038	-35.2	17.1
Ford	30470	-34.2	16.8
Jaguar	568	-63.0	0.3
General Motors	25445	-17.2	14.0
Vauxhall	24014	-15.0	13.2
Saab	1431	-42.7	0.8
BMW grp	18457	-34.8	10.2
BMW	7239	-6.1	4.0
Rover	11218	-45.5	6.2
Peugeot grp	21373	-19.8	11.8
Peugeot	15265	-15.0	8.4
Citroen	6108	-29.7	3.4
Volkswagen grp	20785	-3.1	11.4
Volkswagen	14499	14.7	8.0
Audi	4298	-21.2	2.4
Skoda	842	-57.3	0.5
SEAT	1145	-16.9	0.6
Renault	15061	-26.8	8.3
Fiat group	6947	-12.4	3.8
Fiat	6134	-17.5	3.4
Alfa Romeo	813	64.2	0.4
Nissan	6515	-30.9	3.6
Toyota	7124	-0.9	3.9
Honda	6317	0.8	3.5
Mercedes Benz	5849	4.8	3.2
Volvo	3220	-21.8	1.8
Mazda	1402	-50.6	0.8
Korean makers	3343	-18.5	1.8

GM: holds 50% of Saab Automobile and has management control
Rover includes Range Rover/ Discovery
VW: holds 70% of Skoda and has management control

Source: Society of Motor Manufacturers and Traders

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HIGH COURT COMPANIES WELCOME RULING

Setback for lung cancer victims in tobacco case

By John Mason, Law Courts Correspondent

Lung cancer victims hoping to sue two UK tobacco companies yesterday suffered a setback when a High Court judge in London ruled that many of them had started legal proceedings too late.

The judge ruled that eight of the nine test cases brought against Imperial Tobacco and Gallaher were time-barred because writs were served more than three years after victims were diagnosed as suffering from smoking-related illnesses.

The decision was a setback for those bringing the ground-breaking legal action but the main trial is still expected to go ahead in January next year with fewer people pursuing the action.

Leigh Day and Irwin Mitchell, the law firms acting for the victims, said after the ruling: "Obviously many clients will be disappointed by the judgment. We now have to consider this very carefully to determine how next to proceed."

Lawyers acting for the victims have previously said they will continue the action even if defeated on the time-bar issue. But they will now have a smaller pool of people from which to select new test cases.

The law firms represent 52 people trying to sue the two companies. Nine were picked to become test cases when the main trial starts. The ruling over eight of these nine means other victims with possible time bar problems must now go to court to show why they should be allowed to proceed.

Only 16 of the original 52 remain unaffected by the ruling and are able to bring their actions next January.

Both companies welcomed the ruling. Gallaher said it reduced the number of issues the court would have to consider next year. The company said it remained confident of its ability to defend itself in court and would not be settling any cases before then.

Imperial said it was not surprised by the ruling, which was in line with previous decisions. "We are advised that we have strong defences against all such cases, and if the remaining ones proceed to court we will defend ourselves vigorously," it said.

The test case victims claim they contracted their illnesses because cigarettes they bought in the 1960s and 1970s contained more tar than was reasonably safe or appropriate. Their lawyer said neither company – between them they have 80 per cent of the market – had publicly accepted that cigarettes caused lung cancer and that risk rose with tar content.

Clive Bates, from Ash, the anti-smoking pressure group, said the tobacco companies had repeatedly used technicalities to try to "derail" the case. "Over 30,000 people die from lung cancer each year as a result of smoking and it is vital that the court decides what responsibility the tobacco companies bear," he said.

The Roy Castle Foundation, a lung cancer charity, said: "Ninety per cent of lung cancer patients are dead within three years of diagnosis, most of them from the poorer sections of society and how are they expected... to put together the funds and the expertise to bring a successful group action?"

David Hardy: 'We don't want to present ourselves as aspiring masters of the universe' Ashley Ashwood

Master middleman takes centre stage

The London Clearing House, once an afterthought, is expanding its operations. Edward Luce examines its significance

The business of clearing is emerging from the shadows, as the London Clearing House embarks on an ambitious phase of international expansion.

David Hardy, chief executive, plays down any suggestion the LCH is harbouring overweening ambitions. "We don't want to present ourselves as aspiring masters of the universe, but clearing is becoming much more central to the concerns of financial markets," he says.

The LCH's main asset is the market's dread of risk – an increasing fear in the aftermath of the Russian debt default and numerous related financial panics over the last few months. As the "central counterparty" on all trades that it clears, the LCH in effect eliminates risk for its members (there is always a tiny risk of default).

For example, the LCH acts as the central counterparty for trading on the London International Financial Futures and Options Exchange. If you trade a future or option on Liffe, your position immediately becomes an exposure to the LCH rather than the person from whom you have bought or sold the derivative. The same applies to your counterparty. The LCH, in the middle of the trade, eliminates any further interface between the two sides.

This means you can continue trading derivatives without worrying about whether the other party will deliver on their side of the bargain.

"It [a central counterparty] buys you peace of mind," says John Langton, chief executive of the International Securities Markets Association in Zurich. "And having peace of mind enables you to do all sorts of things you would not otherwise want to do."

The LCH is also central counterparty to the London Metals Exchange, Tradepoint, the electronic trading system for UK shares, and the International Petroleum Exchange.

But the LCH is soon to launch operations to clear the non-exchange traded derivatives market, including the burgeoning global interest rate swaps market and the rapidly growing securities repurchase (repos) market in Europe. The clearing house also has ambitions to move into other, mostly informal, markets that lack a central counterparty.

This sounds unglamorous, but bankers and brokers see the spread of central clearing as one of the most radical changes to financial markets in years. LCH's success – or failure – could have far-reaching implications for London's position as Europe's financial centre.

"We have thousands of swaps and derivatives contracts with other banks and brokers, which is a nightmare to administer and very expensive to provision against [set aside capital in case your counterparty defaults]," said a US banker. "Having a central counterparty does away with all this at one stroke. It turns the over-the-counter market into an exchange-like market."

The LCH's expansion into areas where other clearing houses have feared to tread has been made possible by the explosion in the use of OTC (non-exchange traded) derivatives over the last few years. Trading of OTC derivatives now dwarfs volumes of listed products on the exchanges. "When you thought of the City five years ago, you focused on the London Stock Exchange, Liffe, the Bank of England and possibly the LCH as an afterthought," said a senior banker.

"Nowadays Liffe is probably the afterthought and the Bank of England has an uncertain future if the UK enters Emu. The LCH, on the other hand, springs to mind immediately."

Murder charges open nation's first war crimes trial

By John Mason, Law Courts Correspondent

The UK's first war crimes trial began in London yesterday when a former policeman was accused of murdering four Jews in German-occupied Belorussia in 1942.

Anthony Sawoniuk, 77, of east London, killed Jewish men and women who escaped an earlier massacre by German soldiers, the court heard.

"The evidence indicates in our submission that the defendant not only was prepared to do the Nazi bidding, but carried out their genocidal policy with enthusiasm," John Nutting, prosecuting, said.

The prosecution is the first to be brought in the UK following the 1991 War Crimes Act.

This allows UK courts to try anyone living in the country who is accused of committing war crimes anywhere during the second world war.

Mr Sawoniuk denies four counts of murdering a single Jewish person.

Mr Nutting told the jury that three of these counts related to occasions when Mr Sawoniuk was alleged to have murdered a number of Jews. But the law did not allow a murder charge to relate to the death of more than one person.

Mr Sawoniuk lived in the town of Domachevo in the German-occupied Soviet Union, the court heard. The bulk of the town's population of more than 3,000 were Jewish and were forced by the German army to live in a ghetto in the centre of the town.

Mr Sawoniuk volunteered to be a policeman within three days of the Nazi occupation and searched people leaving or entering the ghetto, the court heard. In August 1942, the Germans gave orders for all Jews in the area to be killed within a month.

Nearly 3,000 of them were then massacred in Domachevo in a single day.

There was no evidence that Mr Sawoniuk had participated in this massacre, the prosecutor said.

But the evidence that he murdered Jews was "irresistible".

The jury will next week visit Domachevo, now part of Belarus, to see the scene of the alleged murders. This will be the first time a UK court has been convened in another country. The case continues.

Watchdog attacks broker funds' performance

By Jean Eaglesham in London

The "deteriorating [and] very poor" performance of the £1bn ($1.64bn) of investment funds managed by UK independent financial advisers was yesterday attacked by the sector's watchdog.

The Personal Investment Authority also announced new controls on the sector, which has halved in size over the past two years because of increased regulatory pressure.

The funds could "disappear altogether" unless advisers can turn round their dismal track record, warned David Peffer, the authority's chief executive.

Broker funds, as these investments are known, have drawn intense criticism from consumer groups and from IFAs who have decided to stay out of this market.

The funds are run by life assurance offices or unit trust groups, but with all investment decisions taken by IFAs. This imposes a layer of double charging: the IFA levies a management fee on top of charges for the underlying unit and investment trusts in the fund. "Existing investors should ask themselves if they are getting value for the extra charges," said Mr Peffer.

Performance figures published by the regulator yesterday suggest the answer to this question will generally be negative. "On average, the performance was notably worse than similar life, pensions and unit trusts which are not broker funds," the PIA said.

The 2.5 per cent annual growth of the typical life broker fund over the last five years is just over half the 4.6 per cent achieved by non-broker fund equivalents.

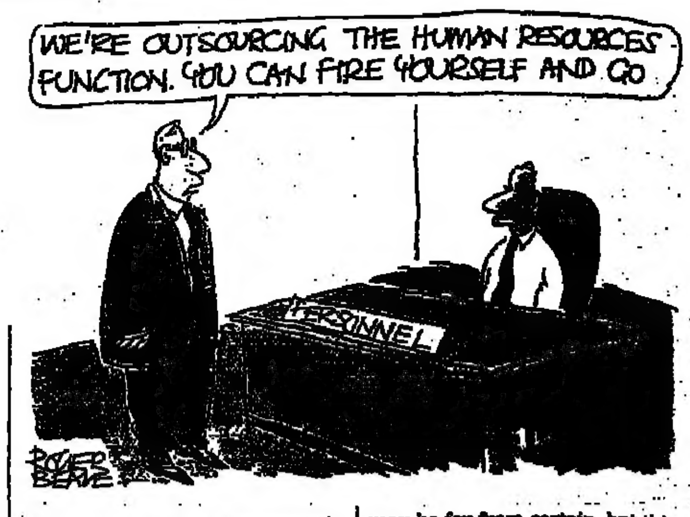
The regulator will in future force IFAs whose funds have underperformed the relevant benchmark to write to clients each year explaining why this happened. The supervision of IFAs in the broker fund market is also being stepped up.

But the PIA defended its decision to resist earlier calls from consumer groups to ban broker funds.

JOHN W. HUNT
ADVISES

Working in a rich human vein

Effective personnel staff see themselves as specialists operating at the heart of the business



Dear Professor Hunt,
My daughter will finish at university next summer, when she will graduate with a modern languages degree. She has expressed an interest in pursuing a career in personnel management; indeed she loves people and I think she would make an excellent human resources manager. What advice would you give her?

This question must fall into my top 10 most-asked questions; it is invariably asked by the parents of an aspiring convert to personnel management, rather than the offspring themselves.

The answer involves clarifying a crucial point – a love of people is not a prerequisite for the effective HR specialist. They are attracted to the function for other important reasons.

What interests the most effective personnel specialists is not the forming of emotional relationships, but the challenge of creating the structures and the climate in which people's potential can be released, developed and rewarded. In short, their major function is to ensure the supply of talent necessary for the company to achieve its objectives.

I would suggest to your daughter that she grounds herself in the most important issues facing this function by reading the academic journals and press. She should also talk to people at the professional bodies or in the personnel function of any organisation. What will emerge is that there are three conflicting views of the future role of personnel.

The first view is that it is a function in decline. It is arguable that no other business function in recent years has seen, to the same extent, its expertise eroded through the shift to outsource and downsize.

It is a trend that shows no sign of going into reverse. This is also consistent with the popular view that personnel is a line manager's job and so should be returned to the line manager. After all, it is the manager who should be overseeing the supply and development of talent. Outsourcing has, of course, been one way in which overloaded line managers have coped with the logic of this argument.

The second view is that personnel is a function whose future is assured as it begins to play a central role in the top management team. This view emphasises the relevance of a function that is closely integrated with the strategy and direction of the organisation, and which is not concerned primarily with day-to-day questions of recruitment, training, pensions and salary administration.

The third view sees the HR function continuing pretty much as it is, largely because of the limitations of labour markets, agreements with unions, employment law and so on. I have problems with this view simply because functions do not stand still, they either develop or die. Maintaining the status quo, therefore, is not really a long-term option.

Though all three views have their advocates, the second would attract the young. In practical terms this would see them embark on a career which may begin with the nitty gritty, but which would move progressively on to advising on internal change and a deeper involvement in developing the culture of the organisation.

This journey up the learning curve is important, for all HR people have at least to understand the broad portfolio of function requirements, such as the way the recruitment process works, the way salaries are paid, the way people are trained, the way poor performers are handled, the meaning of redundancy, industrial or employee relations, disciplinary actions and so on.

Fairly early on, though, most become more specialised in one or two sub-functions of the HR operation. Examples might include providing personnel services to a unit or division, or concentrating at a corporate level on an area such as salary administration, training and development, or assessing and measuring performance.

The key to the success of the function lies in the struggle to acquire more influence, something that is being carried out in a climate of downsizing and outsourcing. Even the change of name from personnel to HR is indicative that the way people view and perform this role is changing – with the new name communicating a desire to break with the past and to throw off an image that was limp and limiting. It also reflects the rise of a new breed of specialists.

Well trained and experienced (usually in their late 30s or early 40s), these specialists do not intend to spend their time simply servicing line managers with salary schemes or recruiting staff or approving new contractual arrangements. This group sees its place as part of the strategic team running the business.

Your daughter should try to get a holiday placement with a company that has a well established HR or personnel function – a real HR department within a large company, not a consulting company. If she is still interested, then on graduation she should seek a job in an HR function in one of the leading corporations or a government department. The larger the organisation the better, for it is more likely that a full range of HR activities will be available.

In the not too distant future, she should enrol for her professional training. Choose only those courses recognised by HR professionals, as these will provide the theory and research to support the practical experience she is getting from her job. Alternatively, if your daughter wants more than the basics then she should consider a part-time masters degree in human resource management.

The future of the HR function may be far from certain, but this should not dismay you. In situations of uncertainty, it is the confident who win through. If your daughter genuinely wants to build a career on the development and supply of human resources, then the scope for impact and achievement is enormous. I know of no organisation whose senior managers believe their company will operate, in the future, without any human beings. Whether ensuring the supply of those human beings resides in a function called HR or not is rather irrelevant.

John W. Hunt is Professor of Organisational Behaviour at London Business School and a consultant to private and public sector clients. This column appears fortnightly.

MANAGEMENT CASE STUDY

Bekaert ties up the wire market

Peter Marsh looks at the Belgian group's strategy for expansion in South America

Uncork a champagne bottle, change a car tyre or staple together some paper, and the chances are you will come into contact with the products of a Belgian company that is the world's biggest maker of steel wire.

Bekaert, set up 119 years ago and still partly owned by the founding family, had sales in 1997 of BF97bn (€2.16bn, $2.7bn), including associates. Of the total, 26.6 per cent came from South America. Europe accounts for half its total sales, and North America 10 per cent.

Bekaert's strategy for South America, where it has gradually been building business over the past 40 years, is based on buying stakes in a number of existing or new steel wire producers in the region. The strategy has been accelerated during the past decade, during which it has built up stakes in companies in Colombia, Peru, Brazil and Mexico, adding to previous operations in Chile, Venezuela and Ecuador.

The company's investment in South America in the past decade, including acquisitions and plant building, has totalled about BF10bn, with the affiliates contributing a further BF6bn. The company believes it caters for 40 per cent of South American demand for steel wire, totalling some 2.2m tonnes.

Steel wire is among the most ubiquitous of industrial components, used in products as disparate as fencing, bridges, cables, valves and filters. Bekaert has an estimated 80 per cent of the market for the special wire that keeps corks in champagne bottles and is particularly strong in the wire used to reinforce car tyres and in that used to make staples. The technical knowledge Bekaert has built up over decades is vital in keeping its market leadership.

The company's lack of overall shareholder control in its South American operations does not worry Thierry Verhaeghe de Naeyer, non-executive chairman and great grandson of the founder.

"We look upon these people [in the affiliate companies] as our friends," says Mr Verhaeghe de Naeyer, whose family owns a substantial minority stake in the publicly quoted Bekaert. "We bring a wider knowledge of the global steel wire business and they [the partners] know the local markets."

He adds: "Over time we would probably want to consolidate [take more than a 50 per cent share in the South American businesses] but it has to be done with the proper diplomacy."

Bekaert's South American interests are supervised not from the company's head office in Kortrijk, Belgium, but from its headquarters for the Americas in Atlanta, Georgia.

From there a group of five senior Bekaert managers, all of whom can speak Spanish or Portuguese, pay frequent visits to the company's network of plants in South America. These total 20 out of its 68 factories worldwide, the figure having grown from just six (out of a worldwide 43) a decade ago. Fewer than half the company's plants are now in Europe.

Ideas developed in the company's more mature operations in Europe have sometimes been transferred to the South American businesses. "This is a technology-led business in which the knowledge we build up in specific markets can be crucial to allowing us to expand geographically," says Mr Verhaeghe de Naeyer.

"For instance we have replicated European-developed processes for making the steel cord used in car tyres to our businesses in Brazil, which has helped them to extend their operations in the country's car industry," he adds.

"Demand for steel wire in the South American region is growing by 4 to 6 per cent a year in volume on average and we would like to grow at above this rate, so that our share of the total business goes up," says Mr Verhaeghe de Naeyer. Further ahead, he sees the possibilities of extending the company's strategy in South America to south-east Asia, another part of the world in which demand for steel wire is likely to be extremely high over the next few decades and where Bekaert has so far done little more than establish a foothold.

'We bring a wider knowledge of the global steel wire business and they [the partners] know the local markets'

Thierry Verhaeghe de Naeyer, non-executive chairman

Conversation moves like a dazzling piece of chamber music: the superb cast in Michael Frayn's rapid, vehement remembrance of times past

Alastair Muir

A sensuous chamber piece

Few plays have been more intricate than 'Copenhagen', writes **Alastair Macaulay**

Why did we do what we did? Michael Frayn's award-winning *Copenhagen* asks the question. Was it physics, or politics, or friendship, or pride, or a dozen other possibilities, that sent the German scientist Werner Heisenberg to Copenhagen in 1941? He asks the question himself. So does the Danish scientist Niels Bohr, whom he went to visit there. So does Bohr's wife Margrethe. The play keeps spiralling back to the question, and the conversation between the three of them moves like a dazzling piece of chamber music. Or, at many times, like ping-pong.

Frayn's play is a trio, but Frayn well knows that a trio is sometimes a trio, sometimes a duet with one player silent, sometimes a solo with both other players silent, sometimes a duet with a separate solo going on at the same time, and sometimes three simultaneous solos. And meanwhile the play keeps shuttling to and fro in time almost imperceptibly – between the present, when all three characters are dead, and 1941, or their memories of 1941, and other times when they met also. Few plays can have ever been more intricate than this rapid, vehement *recherche du temps perdu*.

At first, the sheer gloss and irony of *Copenhagen* is off-putting. Deftly though it handles its quantity of factual information, there cannot be many in the audience who can keep abreast of all its to-and-fro discussion of the great physics/philosophy questions of the 1920s and 1930s – relativity, complementarity, uncertainty, fission, waves. And yet gradually, as in a Stoppard play, the sheer density of material becomes a pleasure; becomes sensuous. The content may sometimes be above our heads and the debate faster than our brains – yet this very height and speed become riveting, and absorbing. The rhythm of the play never falters. As when following chamber music, the audience's concentration may lapse briefly now and then, but *Copenhagen* itself keeps moving on and around, and keeps compelling the attention of even the least scientific brains.

For, beneath all the gloss and irony, nobody eventually can miss the wonderful urgency of this play. Neither Heisenberg nor Bohr were simply men of theory. In 1941, Heisenberg was starting to lead the team that was going to build the first German nuclear reactor, and the military potential of his work is something that lends a disturbing and moving quality to the whole play. Did he hope in due course to create a nuclear bomb? Did he hope to avoid creating a nuclear bomb? Did he want to find whether America was creating its first nuclear bomb? Did he hope to give Germany parity in the wartime arms race?

After 1941, Bohr – pursued, as a Jew, by the Germans – fled to America and gave counselling that lent invaluable assistance to the teams that did indeed create the bombs that dropped on Hiroshima and, in particular, Nagasaki. Here the ironies of the play grow deep and astonishing.

Seeing *Copenhagen* once is impressive – and reading it is also good –but returning to it is better. And seeing it a third time, now the production has transferred from the National Theatre to the Duchess Theatre, is better yet. Much of the accentuation of Michael Blakemore's brilliant production has changed. Everything seems brighter, keener, stronger, more inflected. The play's very acoustic has gained (perfectly) a slight echo; the lighting, by Mark Henderson, has intensified our sense of each shift in time and approach; the odd "noise off" adds a more intense quality to the concentration of the talk onstage.

Above all, the three performances – already first-rate when the play was first seen last May – have all become more vivid. David Burke's impersonation of the affable but ardent Bohr is wonderful, not least in the covered quality he gives to Bohr's very diction. Sara Kestleman, whose role as Margrethe does so much at first to heighten the self-reflexive irony of the play, thrillingly judges each change of dramatic tone and, in Act Two, impatiently introduces startling new personal perspectives on the play's central question. And Matthew Marsh catches, with extraordinary impetus and absorption, the many ambiguous facets of Heisenberg, arrogant and diffident, courteous and thoughtless, calculating and impulsive, ambitious and conscientious. These are, all three, roles of exceptional difficulty in a play that never for a moment allows its actors to relax. The force, the brilliance, the humanity of these three performances is the best demonstration of the real beauty of Frayn's play.

At the Duchess Theatre, London WC2.

Bittersweet dialogue: Jane Birkin starring in her own play, 'Oh! pardon, tu dormais . . .'

Growing old disgracefully

Nicholas Powell finally runs out of sympathy for sixties icon Jane Birkin

The good thing about theatre as opposed to life, the British actress Jane Birkin said recently, was that when the latter went wrong, that was it; but if a performance went badly, you could always go home, take a sleeping tablet and start all over again the next evening.

A similar atmosphere of pharmaceutically charged despondency pervades *"Oh! pardon tu dormais . . ."* ("Oh! Sorry you were asleep . . ."), a play written by and starring Birkin, which is playing at the inappropriately named Théâtre de la Gaîté Montparnasse.

For the past 30 years, Birkin has embodied a succession of men's – mainly Frenchmen's – fantasies. Her career has stretched from being a 1960s waif when London was swinging to being the partner of songwriter and musician, Serge Gainsbourg. Gainsbourg first got Birkin to sing – or deep breathe – the lyrics in "Je t'aime, moi non plus", the biological allusions of which had the record banned by the BBC and cherished by every British schoolboy good at French.

Since Gainsbourg's death in 1991, Birkin has been coaxed out of mourning to become a cinema actress of note – and even a singer, albeit with a tiny, microphone-boosted voice. All these aspects of her career are present in *Oh! pardon*, her first stage role in nine years. She says she was determined to play the role of a full-grown woman; and she succeeds, even if many of the character traits of her youth pop up in abundance.

Birkin wrote the play for television in 1992, with another actress in the female lead. Here, opposite Thierry Fortineau, admirably passing from half-affectionate grumpiness to raging, wounded disappointment, she plays the more strident half of a mutually destructive couple, bonded only by recollections of a lustful past and niggling material considerations about where to go, should they have the courage to split.

It is the territory charted by Tennessee Williams and Alan Ayckbourn. Birkin's text works admirably, laying bare with wit and speed the cruel incomprehensions born of ill-expressed demands which have dogged couples ever since God cursed Adam and Eve. *Oh! pardon* takes place in a low-cost Art Deco-style bedroom: a perfect setting for the two, middle-aged, creative professionals it features.

The play starts prettily enough: she enters on tiptoe in the early hours and gazes longingly at her sleeping partner, before blowing playfully into his hair to awaken him. This amorous initiative, however, fails to arouse a man bored with sex, interested primarily in sleep, and by his own admission doped with two tranquillisers and a sleeping pill. Frustrated, Birkin mouths sweetly-worded requests for reassurance – is she still beautiful, does he love her with her wrinkles? And so, the bittersweet dialogue zips along; for the first half hour or so, it works.

But then, increasingly aggressive, utterly inconsiderate of her partner's need for sleep, the woman's demands become self-defeating. And as Birkin the author delves deeper into the muddy waters of her own dissatisfaction, she finds no answers, only more reasons for pain. Birkin the actress can only shout louder and behave more outrageously – swallowing a tube of sleeping pills before being forced to throw them up by her lover, then describing in horrid self-pitying detail her childlessness and a gruesome abortion.

The relationship is doomed because there is no distance, no humour and indeed, no love – just an incessant mutual demand for narcissistic gratification. Irritation sets in. Birkin and Fortineau, to paraphrase Samuel Beckett, appear chained together like a dog to its vomit. And finally we simply run out of sympathy.

OPERA IN BRUSSELS

Don't mess with this Lady

Not to be outshone by the Flanders Opera with its fine new *Lulu*, the French Belgian Opéra de la Monnaie has mounted an ambitious production of Shostakovich's *Lady Macbeth of the Mtsensk District*. Sung in Russian, with twinned surtitles in French and Flemish, it encourages visitors to revive their French and learn a bit of Flemish at the same time. There is a pretty good opera attached, too.

Like the Flanders *Lulu*, this *Lady Macbeth* is dominated by its stark set – here, the interior wall and roof of a gigantic "concrete" barn, designed by Benoit Dugardyn in Soviet style instead of pre-Revolutionary. It doesn't accommodate the diverse scene-settings well (private bedrooms, a garden wedding-party, bleak steppes); even the ending has had to be changed, for want of any space for a drownable-in river.

Anyhow, it is perverse. The 26-year-old composer intended the opera as the first part of a trilogy, or even a tetralogy, that would trace The Russian Woman from Katerina's wretched 19th century to glowing Soviet times. Stalin was morally outraged by *Lady M*, so the other operas were never written; but *Lady M* still presupposes a grottier, more ramshackle and brutal era than we see here.

Whether set in the right period or the wrong one, Shostakovich's opera reaches toward a near-epic scale – beyond the essentially domestic predicaments of the "Lady", Katerina Ismailova in Leskov's original story. It feels epic at La Monnaie: the first half keeps us sitting for two hours. By then Katerina has murdered her husband and her father-in-law. Those singers are lucky, for Katerina and her new man Sergei have to sing on for another hour.

It is an uneven opera, less because there is both good and not-so-good music in it than because it enlists different idioms promiscuously – massed Mussorgskian choruses, Shostakovich's own rueful, introspective vein (cue cellos), his thoughtful "academic" style (as in his piano Preludes and Fugues), the strident sarcasm that would erupt in his 4th and 5th symphonies, and raw passages of melodramatic film-music.

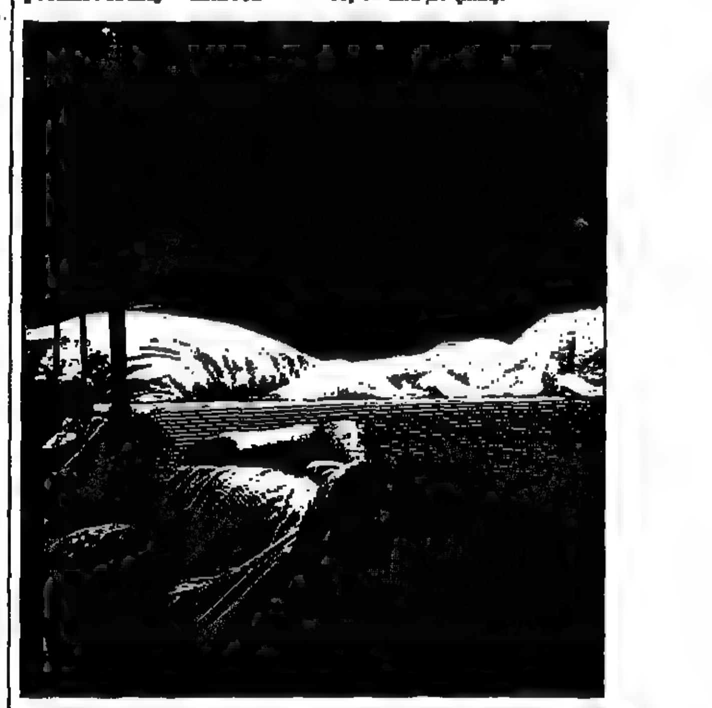
They are never quite integrated, and in that respect Stein Winge's deft, intelligent production reflects the awkwardness. When the choruses of wedding guests and local constabulary get operetta-treatment, behaving like cartoon clones in scenes seven and eight, it is too late for them to begin miming individual pathos in scene nine, as convicts trudging off to Siberia.

Now, the plusses. The American soprano Nadine Secunde captures Katerina's languid marital frustration from the start, and her seductive voice responds dramatically to each new crisis – though that isn't reflected in her musical phrasing, which remains languid and undefined. As her shifty lover Sergei, Christopher Ventris is ideal: virile, strongly sung, just slightly running to seed. Her prissy husband, the Icelandic tenor Gunnar Gudbjörnsson, balances petulance and wimpishness nicely (and musically, too).

The big Ukrainian bass Anatoli Kotscherga sings his heavy father roundly, though his dainty comic manner subverts the ugliness of what the character actually does. Amongst all the well-taken lesser roles, Maxim Mikhailov's drunken local cleric and Donald McIntyre's eloquent old convict stand out. If sitting through this uneven, relentlessly extended opera is a bit of a trial, in the end it delivers rich, humane rewards.

David Murray

Further performances in Brussels on February 10, 12, 16, 19 and 21 (mat).



Marital frustration captured from the start: Nadine Secunde as Katerina poisons father-in-law Anatoli Kotscherga's mushrooms

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Carmen: by Bizet. New staging by Andreas Homoki, conducted by Edo de Waart. The designs are by Wolfgang Gussmann and Gabriele Jaenecke, and the cast includes Carmen Oprisanu and Martin Thompson; Feb 12

BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
Lady Macbeth of Mtsensk: conducted by Antonio Pappano in a new staging by Stein Winge, with sets by Benoît Dugardyn and costumes by Jorge Jara; Feb 10, 12

FORT WORTH

EXHIBITION
Kimbell Art Museum
Tel: 1-817-3328451
www.kimbellart.org
Matisse and Picasso: A Gentle Rivalry. More than 100 paintings, sculptures and drawings on loan from collections around the world make up this first-ever exhibition devoted to the relationship between the two great modernists; to May 2

GLASGOW

OPERA
Theatre Royal
Tel: 44-141-332 9000
Scottish Opera: Der Rosenkavalier, by R. Strauss. New staging by David McVicar, conducted by Richard Armstrong. The cast includes Joan Rodgers; Feb 13

LAUSANNE

EXHIBITIONS
Musée Cantonal des Beaux-Arts
Tel: 41-21-312 8332
Courbet – artist and promoter: more than 70 paintings by Gustave Courbet (1819-77), including landscapes, portraits and nudes. The exhibition concentrates upon Courbet's artistic output after 1855, especially that produced during his exile in Switzerland; to Feb 21

LILLE

EXHIBITION
Palais des Beaux Arts
Goya: un regard libre. Small-scale exhibition which explores the range and peculiarities of the painter's work. The 50 works on display include loans from around the world; to Mar 14

LONDON

CONCERT
Barbican Hall
Tel: 44-171-638 8891
Vienna Symphony Orchestra: conducted by Vladimir Fedoseyev in works by J Strauss, Mozart and Beethoven, with piano soloist Artur Pizarro; Feb 11

MADRID

EXHIBITION
Thyssen-Bornemisza Museum
Tel: 34-914-203 944
El Greco: Identity and Transformation. Focusing on the years 1560-1600, this exhibition follows the artist's early apprenticeship in Crete and Italy, in an attempt to shed light on his subsequent 'Spanish transformation'. The 80 works on display include major public and private loans; to May 16, then travelling to Rome and Athens

MANCHESTER

CONCERT
Bridgewater Hall
Tel: 44-161-907 9000
Vienna Symphony Orchestra: conducted by Vladimir Fedoseyev in works by J. Strauss, Mozart and Beethoven, with piano soloist Artur Pizarro; Feb 12

MILAN

EXHIBITION
Palazzo Reale
Tel: 39-02-8691 5738
L'Anima e il Volto: (The Soul and the Face): major exhibition of portraiture, comprising 370 works ranging over 400 years. Artists represented include Titian, Caravaggio, Van Dyck, Picasso and Francis Bacon; to Mar 14

MONTREAL

EXHIBITION
Montreal Museum of Fine Arts
Tel: 1-514-285 1600
www.mbam@cam.org
Monet at Giverny: 22 paintings, produced during the last 20 years of the artist's life, loaned by the Musée Marmottan in Paris; to May 9

MUNICH

CONCERT
Philharmonie Gasteig
Tel: 49-89-5481 8181
St. Petersburg Philharmonic Orchestra: conducted by Yuri Temirkanov in works by Prokofiev and Ravel; Feb 11

EXHIBITION
Haus der Kunst
Tel: 49-89-211270
Angelika Kauffman (1741-1807): retrospective of works by the Swiss decorative artist, who was a founder member of London's Royal Academy. Includes paintings, drawings, prints and porcelain; to Apr 18

NEW YORK

EXHIBITION
Guggenheim Museum
Tel: 1-212-423 3500
www.guggenheim.org
Picasso and the War Years 1937-1945: more than 75 works - paintings, sculpture and works on paper - which together explore Picasso's response to the period which began with the Spanish Civil War and ended with the liberation of France. Includes major public and private loans; to May 9

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Moses and Aron: by Schoenberg. Conducted by James Levine in a staging by Graham Vick, with sets and costumes by Paul Brown. Cast includes Philip Langridge and John Tomlinson; Feb 11

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Frans Brüggen in works by Bach, Mozart and Mendelssohn; Feb 10, 11

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Orchestre National de France: conducted by Jerzy Semkow in works by Haydn, Mozart, Mendelssohn and Schubert, with clarinet soloist Alessandro Carbonare; Feb 14

EXHIBITIONS
Grand Palais
Tel: 33-1-4413 1730
Un ami de Cézanne et de Van Gogh: le docteur Gachet (1828-1909). Exhibition devoted to the doctor and painter who was a friend to Cézanne, Pisarro, Monet and Renoir as well as to Van Gogh, who famously spent the last weeks of his life with Gachet at Auvers-sur-Oise; to Apr 26, then transferring to New York

Musée du Louvre
Tel: 33-1-4020 5151
www.louvre.fr
Eternal monuments of Ramses II: New Theban excavations. Display of the latest archaeological findings from the Egyptian pharaoh's tomb; from Feb 10 to May 10

OPERA
Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Opéra National de Lyon: Zelmira, by Rossini. Conducted by Maurizio Benini in a staging by Yannis Kokkos. The title role is sung by Mariella Devia; Feb 10, 12

ROME

EXHIBITION
Palazzo delle Esposizioni
Tel: 39-06-474 5903
Poussin: Early Years in Rome. Display of 41 works produced between 1624 and 1628. The centrepiece is 'The sacking of the temple in Jerusalem by Titus' (1925/6); to Mar 1

TAMPERE

EXHIBITION
Sara Hildén Art Museum
Tel: 3583-214 3134
www.tampere.fi/hilden
Tony Cragg: 33 sculptures and a large number of drawings by the British-born artist, now working in Germany. The works on display are from the period 1988-1998; to May 9

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
English Chamber Orchestra: conducted by Norio Ohga in works by Mozart, with piano soloist Michie Koyama; Feb 11

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
11.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

MARTIN WOLF

Worst of both worlds

Conflicts between central bankers and politicians could leave the euro-zone with complete policy paralysis

The international system cannot sustain indefinitely the large imbalances created by the disparities in growth and openness between the US and its major industrial trading partners. Robert Rubin, January 30 1999.

In his speech to the World Economic Forum, Mr Rubin protested against the growing external imbalances between the US, Japan and the euro-zone. For US officials, Japan is close to a lost cause. But now that the European Union has created the 11-member euro-zone, they wonder why is it failing to live up to its global responsibilities.

Intriguingly, such doubts are shared by some of the euro-zone's most influential policymakers. Over the weekend, Stefan Collignon, a close adviser of Oskar Lafontaine, Germany's neo-Keynesian finance minister, called for lower interest rates. So Germany first insists on making the European Central Bank the most independent in history and then elects a government opposed to the way that independence is used. The ironies are delicious.

Unfortunately, the euro-zone's economic performance is less tasty. The rate of economic growth is forecast by Goldman Sachs at only 1.9 per cent this year, a sharp decline from the 2.9 per cent achieved in 1998. In the year to December, euro-zone industrial production was up only some 1 per cent. Worst of all, unemployment has almost stopped falling.

This untimely slowdown must be seen in its depressing perspective. The annual growth of euro-zone gross domestic product averaged a mere 1.8 per cent between 1993 and 1998, while the US achieved 3.2 per cent. Unemployment in the euro-zone is still 10.7 per cent of the labour force, while it has fallen to 4.4 per cent in the US. The euro-zone has a current account *surplus* that has risen from 0.4 per cent of GDP in 1994 to 1.9 per cent last year; meanwhile, the US *deficit* has been increasing from 1.8 per cent of GDP in 1994 to 2.7 per cent last year.

This euro-zone combination of weakening internal demand with slowing growth and rising current account surpluses is considered objectionable, both at home and abroad.

Internally, the focus of complaint is on jobs. The social democratic governments that are in power in all but two of the euro-zone's member states attach great importance to lowering unemployment. This year, however, the objective of lower joblessness seems set to move further from reach.

Externally, the US protests that, in the words of vice-president Al Gore, it is becoming "the importer of only resort". This is absurdly exaggerated. In 1998, the euro-zone will have merchandise imports of $770bn, according to the OECD, not far below the US level of $920bn. Even complaints about its current account surpluses could, in normal times, be dismissed as mercantilist claptrap. But these are not normal times. When the world is threatened by recession, it is dangerous for the economically stable euro-zone to "freeload" on unsustainably buoyant US demand, as Gavyn Davies of Goldman Sachs remarks.* The ECB, as one of the world's two most important central banks, ought to combat global recession more vigorously.

Why then is economic performance in the euro-zone so disappointing? And will anything be done about it?

The ECB offers a clear answer to the first question. In its first monthly bulletin, it states that the current high level of unemployment "is overwhelmingly structural in origin. It is caused mainly by inflexibility of euro-area labour and goods markets resulting, in part, from excessive or inappropriate regulation in these markets."

The ECB continues its analysis by stating that "effective euro area-wide structural policies would lead to higher trend real growth. Within its monetary policy strategy, the Euro-system would naturally take account of such growth. However, attempting to reduce unemployment by implementing an inflationary monetary policy would ultimately be self-defeating, since such a policy would only undermine price stability over the medium term, which is the basis for lasting and sustainable employment growth."

The ECB is saying, first, that it bears no responsibility for unemployment, which is a problem for governments; second, that it would respond to reforms, but only *after* they have been put in place; and, third, that its goal is not to fine-tune aggregate demand, but to secure price stability in the medium term, defined as inflation of between 0 and 2 per cent.

The ECB's is a clear, consistent and convenient philosophy. It denies responsibility for anything but price stability. This is not how Mr Lafontaine sees things. He believes structural rigidities have been exaggerated. By their over-restrictive monetary policies, European central bankers have, in his view, done much to create the rigidities they complain of. What is needed, instead, is the expansionary monetary policies successfully followed by Alan Greenspan, chairman of the US Federal Reserve.

The central bankers are closer to the truth than Mr Lafontaine. If official rates of interest of 3 per cent and 10-year bond rates of 3.6 per cent cannot generate greater dynamism, the euro-zone must indeed be suffering from a dire shortage of animal spirits. Labour costs are too steep; the labour market is too segmented; barriers to entrepreneurship are too high; and tax burdens are too heavy.

Nevertheless, the ECB's monetary stance is also almost certainly too cautious. It is concerned about the divergence between measured inflation and higher "core" inflation (excluding food and energy), though both are below its 2 per cent ceiling. It thinks monetary growth is already fast enough, though the significance of the monetary numbers is questionable. It worries about the German wage round and euro-zone fiscal performance, neither of which is strictly its business.

The ideal policy for the euro-zone is therefore radical structural reform along with generous monetary (rather than fiscal) accommodation. Yet this combination is most unlikely to occur.

Consider the chart. As it suggests, Mr Duisenberg, standing for the central bankers, prefers cautious monetary policy and radical structural reform, but can only choose the former. Mr Lafontaine, standing for Social Democratic finance ministers, prefers expansionary monetary policies and little structural reform, but he can only choose the latter. The outcome is that given by the two boxes labelled "no" – the worst of both worlds.

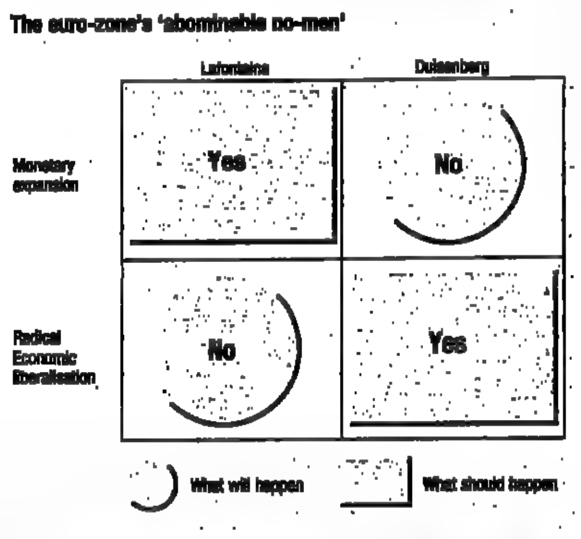
What is needed, instead, is the two boxes labelled "yes". But the politicians fear that if they deliver their share of this bargain, they will only obtain higher unemployment. Central bankers fear that if they deliver their share of the bargain, they will only obtain higher inflation. The inevitable result of this non-co-operative game is disappointment all round.

The divisions between euro-zone economic philosophies and responsibilities virtually rule out the best policy options. The US may want the new euro-zone to become a pole of economic dynamism. It seems doomed to disappointment.

**Global Deflation and the Danger of Freeloading on the Strength of America, Gavyn Davies, Global Economics Paper No.2 (Goldman Sachs, February 1, 1999)*

Martin.Wolf@ft.com.

The euro-zone's 'abominable no-men'



LETTERS TO THE EDITOR

Starting point must be transparency

From Mr Michael J. Green.

Sir, Henry Kaufman ("Too much on their plate", February 4) makes a valuable appraisal of the task of assessing the risk profile of a financial business. However, I would argue that this task is not so difficult as to cast question on the validity of scale as a legitimate business objective.

A distinction needs to be made between banks that make money from trading their own capital and those that principally serve a large customer base. The former are particularly vulnerable to the risks of excesses as the lures of sizeable equity returns or bonus payments can corrupt the integrity of the most strictly controlled trading rooms. The much-publicised cases of trading losses are evidence of this. The latter, however, focus on using traded markets to manage risk, in particular by using their expertise to transfer risk from customers to the market. Enormous improvements in the quality of loan and savings products available to customers support this view.

Managing risks for a proprietary trader is a more difficult task than for a commercial bank, and Mr Kaufman rightly focuses on the factors that exacerbate this: the remoteness of top management, inappropriate compensation schemes and the skills gap between traders and managers. However, once proprietary trading is eliminated as a major risk, trading risks become significantly easier to manage with the shift in emphasis towards product and customer support.

Risk cannot be eliminated in an uncertain world, nor can fraud, system failure or simple incompetence be ruled out. But an effectively managed organisation will have controls in place that routinely review risks and forestall complacency.

This is well appreciated by the supervisors, their problem being that those who operate at the margins of what is tolerable from a risk perspective are precisely those who are most difficult to supervise. The starting point does have to be transparency and disclosure of information to enable market counterparties to take informed credit decisions.

Michael J. Green,
director of group risk management,
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'Experts' neglecting crisis in US heartland

From Mr Richard Yamarone.

Sir, Torrid economic growth in the US has pundits as well as economists raising glasses in honour of the Federal Reserve's delivery of "growth with low inflation and low unemployment" ("Oasis of prosperity", February 1). Furthermore, there are widespread claims that the market has so far "shrugged off the international downturn". For the most part, that is correct. However, one sector in the US is consistently neglected by the press and most "experts": agriculture.

An agricultural crisis is currently plaguing the Midwest economy. Those Federal Reserve districts possessing large farm economies have reported rather depressing news with respect to credit conditions and pricing. Farmland values have been steadily declining over the past several months, largely because of low commodity prices. The commodity price decline is attributable to the Asian financial crisis as well as to the severe drought and flooding conditions that have plagued many of the districts. Unaddressed, America's heartland could be buffeted by bankruptcies, massive loan defaults and price instability.

Richard Yamarone,
senior economist,
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NY 10006, US

What economies' share prices tell the Martians

From Mr Peter Stephens.

Sir, If an observer from outer space were looking down on Earth, he might wonder how all the very different economies he saw could ever operate together. He might search for the safety valve or the lubrication between them and come up with ... floating exchange rates, which, he might argue, are like share prices of the various economies, reflecting their health at any time.

No one has – yet – argued that share prices should not be allowed to rise and fall. So why on earth would anyone argue, as did Dominique Strauss-Kahn, the French finance minister, that it is "now time to take the next step after the creation of the euro"? ("France proposes forex stability plan", February 9.) Let's see how the first adventure works first.

Peter Stephens,
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Death of universalism

Nicholas Timmins argues that the UK government is abandoning welfare for all in order to concentrate on the poor and to improve health and education

Universalism in Britain's welfare state is dying. Today sees one further stage in its decline: the publication of a long awaited government bill to reform welfare (which means, in Britain, all government-run social programmes from pensions and childcare to health and unemployment). The bill marks three steps down a road on which the UK started 20 years ago – a slow but steady shrinkage of the welfare state back towards its core, especially health and education.

The old concept of the welfare state was one in which, very broadly, everyone paid taxes and everyone drew benefits, many of them regardless of income. That has been fractured by widening income inequality and rising costs. It is never to be repaired.

In its place, the middle classes, who were among the biggest beneficiaries of the postwar welfare state, are being offered a new deal: help for those who help themselves. For those who do not, or cannot, there will only be the basic state safety net.

But the trade-off is that more money will be poured into those services which remain in the core of the welfare state – notably health and schooling, the services which opinion polls repeatedly show are the most valued by the middle classes.

Universalism in social security is dying, paradoxically at the hands of the party that has historically been its biggest champion – the Labour party. Its death throes can be dated: they began with a speech to the Labour party conference in October 1976 by the former prime minister, Jim Callaghan, abandoning policies of fiscal expansion, and ended with the resignation in July last year of the then minister for welfare reform.

The former marks the moment when, for reasons only partially connected to the policies of successive Labour and Conservative governments, income inequality started to widen dramatically in the UK. The latter marks the departure of the one minister in the UK government – Frank Field – was committed to rebuilding universalism, albeit not by traditional means.

Instead the government has embarked on a very different project. A greater redistribution from the better-off to the less well-off through more generous, but means-tested, benefits. A continued and steady erosion of the insurance-based benefits – those paid regardless of income in return for national insurance contributions. And more means-testing of contingent benefits such as child benefit and some disability benefits.

This has undoubtedly concentrated help where it is most needed. But the result is a steady rise in dependence on means-tested support, which would have been inconceivable from a Labour government even five years ago.

To some extent it has become inevitable. It is the logical outcome of rapidly widening income inequality. Over the past 20 years the higher your income, the better you have done, both absolutely and relatively. The rich have not only become richer, but they have done better than those in the middle who, in turn, have done better than those at the bottom. The whole income distribution has concertinaed outwards. As a result, it becomes impossible to do what Labour was committed to doing as recently as the 1992 general election – start to rebuild universal, non-means tested benefits.

This is because widening income inequality made it undeniable that flat-rate benefits would go to people who did not really need them. More people plainly fall into that category than when income was much more closely bunched around the mean.

So far, the impact of this redistribution by stealth – using obscure taxes, and restructuring education, legal aid and benefits – has been limited. But just as the welfare state did not look very different two years into the first Thatcher government, when key decisions which contributed to widening inequality had already been taken, the direction of travel is clear. Over time, its impact will be cumulative. Very broadly, it looks as though the bottom third is gaining at the expense of the top two-thirds.

To be fair, the traffic is not entirely one-way. Britain's welfare state is a complex beast and the Blair government, like all governments, has mixed policy objectives. Thus the middle classes are gaining, along with everyone else, from free or subsidised pre-school education. Some will gain from new subsidies for childcare.

But where will it end? If the universalist bits are seen as insufficiently redistributive, should not the National Health Service funding formula, which dishes out cash to health authorities according to the age of their population and its sickness, take into account private provision?

In the home counties around London, one in four hip, cataract and similar operations are performed privately. Yet NHS funding takes no account of this. Arguably such areas are getting an unfair share of total health resources compared with poorer areas with less private provision. In education, this inequality is being addressed. Surrey, one of the richest parts of England, where almost 25 per cent of children are educated privately, is having its government grant for state schools cut.

And there is another issue. Means-tested benefits, as Mr Field has forcefully pointed out, promote idleness, encourage dishonesty and penalise saving. The government's growing willingness to make work-seeking compulsory is tackling the first of these. But to deal with the other two, as growing numbers come to depend upon means tests, some of the rules surrounding them may have to be made more generous – particularly how much people can hold in savings and capital and still claim. Otherwise the middle classes, with a smaller platform of benefits-as-of-right to stand on, risk seeing their savings too rapidly destroyed when misfortune, temporary or permanent, strikes. That is almost certainly the next part of this project.

Behind all this lies the really big question. If the penny drops with the middle classes that they will be paying more in taxes but will be increasingly reliant for income on their own private resources – how will they react? And what will be the electoral impact be? In particular, will the big improvements Labour has promised in the services that the middle class most value – universal health and schooling – be sufficiently visible for this key part of the electorate to judge that the trade-off has been worthwhile?

FINANCIAL TIMES

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Learning from impeachment

A weary US public is breathing a sigh of relief now that President Bill Clinton's impeachment trial is drawing to an end. The Senate is approaching its final vote, due in the next couple of days, on charges of perjury and obstructing justice.

But it would be a pity to let the tawdry case pass, assuming that Mr Clinton will not be convicted, without seeking lessons for the institutions, if not the individual. Has the impeachment process worked in the way intended? Not entirely.

The standard set by the founding fathers of the US constitution was that the process must inspire public confidence, for the good of the nation and to be consistent with the rule of law. While the process was technically legal, it failed the crucial public confidence test.

That view is founded partly on the vehemence with which Kenneth Starr, the special prosecutor, pursued the president. The independent counsel is now seen by many as an unacceptable constraint on executive power. That has something to do with Mr Starr's personality, but is also a consequence of the way prosecutors are selected.

The office was created in response to Watergate, to avoid the situation in which a president could hire and fire his own special prosecutors at will. But though freed from presidential influence, the office has never quite escaped the influence of partisan politics.

So the obvious lesson is that the independent counsel law should be redesigned when it comes up for review by Congress at the end of June. The choice of counsel needs to be made in a way both independent of party politics and yet seen to be democratic. Selection by a panel appointed by the judiciary would be an option.

Equally, there is a political lesson. Partisanship has come from both sides. Just as the right wing of the Republican party has seemed more keen to pursue the president than constitutional duty required, so the Democrats have been far more aggressively pro-Clinton than justified by the merits of the case.

That is the nature of politics. And yet the US constitution implies that there should be a limit to partisanship when it comes to weighty matters such as this. That limit was breached when House of Representatives sent Mr Clinton to trial in the Senate at same time as some of its members suggested that censure, rather than impeachment, was the aim.

It is incumbent on the house to recognise that an impeachment trial should be a way of protecting the office of president, not punishing the man. Mr Clinton has certainly been shamed by the process. But the ultimate political victims could be the pursuers, not the pursued. That surely was not the founding fathers' aim.

All black mood

Last year's recession has taken the shine off New Zealand's much-vaunted economic model. Now the authorities in Wellington have begun to respond.

This week the Reserve Bank announced a significant revision in the operation of monetary policy. Soon the government will announce a series of measures in the industrial sector. It would be easy to jump to the conclusion that the country was turning its back on its purist free market approach.

In fact New Zealand is not likely to do so, nor should it. An open economy may be vulnerable to short-term shock but, for such a small country, being open brings the best chance of sustainable growth over the long term.

The latest measures reflect both the severity of the downturn, and, in the government's case, the fact that an election is due before long. But they should be judged on whether they are useful fine-tuning, rather than a prelude to fundamental change.

Most would now agree that the Reserve Bank has paid too much attention to its monetary conditions index which links interest rates closely to the exchange rate. Rates were thus pushed up as the local dollar fell after the onset of the Asian shock, aggravating a slowdown that was already in the works. Other indicators, such as the yield curve, showed policy was already tight.

It makes sense to back away from emphasis on the index. Neither the bank's independence, nor its inflation target is affected.

As for industrial policy, a recent visit from a top Irish minister has suggested to New Zealanders that a more interventionist stance can bring the high growth they lack. But other factors influence Irish growth. It is part of a much larger European economy and may yet face a price for keeping interest rates low at a time of runaway growth.

If New Zealand's industrial measures involve little more than spot of funding for research and development, that will be fine. There would be cause for worry if New Zealand abandoned its plan to eliminate import tariffs, but that is unlikely.

Other fine-tuning measures are needed. New Zealand's refusal to impose capital gains tax on housing has created serious distortions, and, over time, has been a factor keeping interest rates up at the expense of exporters. Separating fiscal and monetary policy does not mean they should operate in different vacuums.

On the broader front there is already some evidence of recovery. Eventually New Zealand may be seen to have weathered the Asian storm fairly well for such an exposed economy. The paint may be chipped but the model is not broken. It does not need fixing.

Development aid

The latest report from the Organisation for Economic Co-operation and Development's Development Assistance Committee shows that official assistance, from rich to poor countries, has plunged to a historic, and miserable, low. This trend should be reversed, starting with generous debt relief. Where developing countries have the institutional capacity to promote economic growth and poverty reduction, rich countries must be generous.

Overseas aid from the 21 richest OECD countries which make up the Development Assistance Committee fell from 0.25 per cent of combined national income in 1996 to 0.22 per cent in 1997. Development aid has fallen by 20 per cent in real terms since 1992, largely due to reduced aid budgets in the Group of Seven leading industrial economies.

Combined with falling capital flows to poor countries in the wake of the emerging markets crisis and a shift in the terms of trade against developing countries, due to depressed commodity prices, it is clear that economic and social development in poor countries is becoming an ever steeper hill to climb.

Falling aid reflects a number of forces, such as the end of cold-war related assistance, and budget deficit cutting in rich countries, where overseas aid is an easy target. It also reflects a more fundamental problem. The record of development assistance is far from an unmitigated success. Huge sums of money in aid and loans have been wasted in poor countries afflicted by corrupt governments, inadequate institutions and conflict. In Zambia and Zaire, to take two examples, millions of dollars of aid were wasted and stolen.

However, the record should not lead to despair over development assistance, but rather a qualified optimism. As the Development Assistance Committee states, developing countries are ultimately responsible for their own development – but aid can have an important role too.

In countries with good policy, it can help to boost investment directly, and can also spur growth by crowding in private sector investment. The World Bank estimates that, where policies are sound, a dollar of foreign aid attracts two dollars of foreign investment, by buoying up private sector confidence, and helping to build public infrastructure. In countries unable to absorb financial help, technical assistance and advice on reform are a valuable first step.

Higher growth is the surest route to reducing poverty. Rich countries therefore have an obligation to increase development assistance. The first step must be debt relief for those highly indebted poor countries committed to reform.

From top left: Hosni Mubarak of Egypt, Yasser Arafat, PLO leader, Hafez al-Assad of Syria, Bill Clinton of the US and Benjamin Netanyahu of Israel

In his father's footsteps

King Hussein was part of the Middle East solution. His son will need American help to prevent Jordan becoming part of the problem, says **David Gardner**

At the end of the late King Hussein's state funeral on Monday, his young heir King Abdullah stood and accepted condolences from more than 50 world leaders, and from Jordan's people – still queueing at the royal palace last night. The dignified and splendid ceremony was a mark of the esteem Hussein commanded, and a show of national and international support for his untried successor.

It was also a choreographed display of Hashemite family unity after the dynastic upheaval the dying king triggered by dumping his brother Hassan, crown prince, confidant and brains-trust through 34 of the 46 years of his reign.

It was Prince Hassan who was given pride of place after the king in the family line-up, rather than the new crown prince – Hussein's favourite son Hamza – who, at 18, was positioned down the line after two elder brothers and another uncle. Along with Jordanian television's frequent and lingering close-ups of King Abdullah and Prince Hassan in consultation, the message was clear: chapter closed.

The question now is how King Abdullah can turn the sympathy and support displayed this week to the challenges ahead. His western neighbour, Israel, is in the middle of a bitter general election; the Arab-Israel peace process is moribund; his eastern neighbour, Iraq, has, for the moment, outlasted US air strikes and there appears to be no feasible western policy in place now for dealing with Saddam Hussein.

For many years, Jordan was part of the solution to such troubles. Put bluntly, the challenge now is to avoid becoming another part of the problem. So, while the young monarch can hardly hope to achieve the position his father built up over five decades, he needs to capitalise quickly on the groundswell of good will King Hussein's death has unleashed.

That means consolidating his position nationally and regionally. It also means dealing urgently with an at best stagnant economy, currently unable to provide perhaps a third of his countrymen with a living. But to succeed, he needs a regional environment of peace and economic co-operation which the US-led Middle East peace process shows no signs of being able to deliver.

Inexperienced though he is in government, King Abdullah's initial position is strong. Whether by wish or conviction, nearly everyone, at home and abroad, is disposed to see him as his father's son, "a chip off the old block" as one senior US official put it.

A 37-year-old career soldier educated at Oxford and Georgetown universities, he was until his sudden elevation the head of the Special Operations Command, combining the elite commando forces, the Royal Guard and the *Mukhabarat* or intelligence units. In other words, he commanded the strike forces of the Bedouin-recruited army, the bedrock of Hashemite rule – which was on full display at King Hussein's funeral in case anyone was in any doubt.

The new king is also married to an unassuming middle-class Palestinian from the West Bank. This marriage is very popular with Jordanians of Palestinian origin (about two-thirds of the population) – even though Abdallah himself was born of Hussein's second, English wife. King Hussein himself also married a Palestinian – the enormously popular Queen Alia whose death in a helicopter crash 22 years ago was commemorated yesterday amid the royal mourning – and did so at the conclusion of the 1970-71 civil war with the Palestine Liberation Organisation.

Yet Jordanians over the past decade were introduced by King Hussein to the most pluralist system in the Arab world – only to see it gradually rolled back as the peace process began to falter. Parliamentary elections in 1989 returned Islamists as the largest party. Their opposition to the 1994 peace treaty with Israel meant that by the elections of that year the electoral system was gerrymandered to ensure a solid caucus of loyal Bedouin notables. Many Jordanian politicians regard this as a dangerous reversion to tribal politics, made worse when the Islamists boycotted last year's elections.

The late king, moreover, so overarching a presence that he dwarfed all political institutions, changed his government 56 times in 46 years. While this rotated office, and ostensibly kept a balance between the geographical, ethnic, tribal and class components of the nation, it inculcated a culture of patronage and corruption.

As the treaty with Israel became more and more unpopular – especially after September 1997 when a Mossad hit squad botched the assassination of a Palestinian Islamist leader in central Amman – King Hussein intensified his clampdown on a hitherto relatively free press.

Although public debate during the 40 days of mourning will be subdued, several ex-ministers and at least two former prime ministers are saying privately that King Abdullah should return to the road of constitutional monarchy Jordan started on in 1989. That would mean unmediated elections, a fully free press and a chance for civil society to strengthen its institutions. But none of them is holding his breath.

> **'Things are edgy, like when the snake is losing its skin. Any sudden movement and it strikes'**

As one prominent businessman put it late last year, "things are very edgy here, just like when the snake is losing its skin; any sudden movement around it and it strikes". In the view of one leading politician, only the king can effect change. "No institution, no current, no individual, no one else can be the tool of change."

Others counsel that the revival of regional tension and the deterioration in the economy makes this a time for consolidation, not experiment. Without significant advances on these two, adjoining fronts, their voices are more likely to prevail.

A raft of leaders at King Hussein's funeral have promised to shore up resource-poor Jordan with new infusions of aid and finance. If these pledges are honoured, Jordan's immediate position will be safeguarded. Longer term, however, the picture looks bleak. Having stabilised its macro-economy and liberalised its micro-economy under International Monetary Fund guidance, Jordan still finds that its main market, Iraq, is closed by United Nations sanctions, while the main economic hope of its peace policy, Israel and the West Bank, is blocked off by a mix of Israeli protectionism and the collapse of the peace process.

Almost every attendant restructuring problem, such as the lifting of bread subsidies which convulsed the kingdom in riots in August 1996 – which the then Prince Abdullah's special forces quelled – or fast-dwindling water and water quality – which led to last year's change of government – only looks soluble in the context of a regional settlement.

So however gifted King Abdullah proves, Jordan's development, political and economic, is conditioned by a Middle East peace process which has been in freefall since Benjamin Netanyahu came to power in Israel in 1996. Not even King Hussein, the region's most convinced and active peacemaker, could change that. Bill Clinton, the US president, has acknowledged that it was King Hussein who managed to persuade Mr Netanyahu and Yassir Arafat, the Palestinian leader, to agree last autumn's Wye Plantation accord on a small Israeli withdrawal from the West Bank. Yet even that was not implemented. With King Hussein gone, it is wholly unlikely King Abdullah can do better.

After his father's funeral this week, the young king had talks with all the key regional players, in particular Mr Clinton, Mr Netanyahu, Mr Arafat, President Hosni Mubarak of Egypt and President Hafez al-Assad of Syria.

The presence of Mr Assad – who like Mr Arafat is in very poor health – was in part meant to underline that Syria is still interested in peace despite Israel's refusal to return the Golan Heights, conquered in the 1967 war along with the West Bank and east Jerusalem. He is understood to have told Mr Clinton this in a brief meeting. But he cannot break the deadlock. Nor, probably, can Mr Mubarak, despite Egypt's 1979 peace treaty with Israel. Mr Netanyahu has chosen to believe that whereas King Hussein was equidistant between Israel and the Palestinians, the Egyptian president is firmly in Mr Arafat's camp.

Ostensibly, therefore, everything now appears to depend on the outcome of Israel's elections on May 17, being viciously fought over the peace issue between Mr Netanyahu and two former generals, Ehud Barak, the Labour party leader, and Yitzhak Mordechai, Mr Netanyahu's estranged former defence minister. As things stand, it looks as though the incumbent premier can rally his extremist allies with budgetary handouts and split the opposition vote. Many Israeli analysts expect him then to implement enough of the Wye agreement to win in a run-off in June. Whoever prevails, however, none of the three candidates has indicated he is willing to make the necessary territorial concessions to the Palestinians, Syrians, and indeed, Lebanese – 12 per cent of whose land Israel also occupies – to reach a comprehensive regional settlement.

That leaves the US which, as Israel's main ally must realise that with King Hussein gone and several ageing and infirm Arab leaders in danger of following him soon, the scope for instability is widening. Until now, Mr Clinton has applied only gentle pressure on Israel. But the stakes are getting higher.

This is why Jordan, in particular, which under King Hussein was part of the solution, could now become part of the problem – through no fault of King Abdullah who has pledged to continue his father's peace policy.

As the late king himself said – in an interview just before a Jewish zealot assassinated Yitzhak Rabin, the Israeli leader who launched the peace process – "this is a race, between those who believe in life and stability and the prisoners of the past with all its horrors". It is not a race with unlimited time left.

OBSERVER

Slippery slope for Chrétien

Canada's Whistler Mountain has an international reputation for the best skiing in North America. But for Canadian prime minister Jean Chrétien it's an uncomfortably long way from Amman.

Chrétien this week finds himself being roundly criticised at home for being the only leader of a G8 nation who failed to turn up for Tuesday's funeral for King Hussein of Jordan.

The Reform opposition party has of course been scoring points left, right and centre. It's been going out of its way to emphasise that "other than Saddam Hussein, the only world leader not there was the Canadian prime minister".

The reason? He'd just embarked on a skiing holiday at Whistler and is pleading that it proved physically impossible for him to get to Amman at such short notice.

The trouble is, his own military have been busy poking holes in the excuse, pointing out that a helicopter could easily have whisked the prime minister from the slopes to the airport at Vancouver. From there he would have had no problem making it in time.

Even worse, the skiing wasn't that good. Whistler skiers were suffering after several days of blowing snow and record high winds. Now it's going to take a while for the political huffing and puffing to die down.

New life

It's enough to test your faith in reincarnation. Wily Indian businessmen are upsetting regulators by renaming their companies to sound like high-tech stocks so they can benefit from the software frenzy currently exciting the markets. And the trick seems to be working.

Gullible investors are snapping up shares in small companies like ICC Infotech, formerly Arihant Housing Finance, Cyberspace Infosys, once Century International Finance, and Silicon Valley Infotech – the erstwhile more prosaically named Prashant Food Products.

So the Bombay stock exchange is warning investors to make sure that the companies really have been reborn and not just rebranded. In the meantime, genuine software executives are getting increasingly exasperated. As one told Observer: "If this carries on, the entire sector could end up trading at a discount."

Britta future

Klaus Steilmann, king of one of Germany's biggest clothing manufacturers, has lost more than a few important executives over the last year. Now, one of his daughters has jumped ship as well.

Steilmann, 69, founder of the group that bears his name and supplies big retailers such as Marks & Spencer with own-label fashions, has suddenly parted company with daughter and managing director Britta, widely seen as the favourite of his three daughters.

She's quit after plenty of talk that she'd been trying to turn the company's "fashion for the millions" strategy into one of "fashion for millionaires". She's gone on record saying that was never her intention, although she's been keen on raising the company's international profile.

Britta, whose business skills have attracted heaps of praise, not to mention honours, isn't alone in seeking a new life beyond the family business. Since last summer, the company's lost a commercial director and a short-lived marketing director.

So Steilmann is looking for a new managing director while Britta is applying her many talents to building up Concept, a clothes supplier to food chains.

Taking a Liberty

There was an almost indecent haste about yesterday's embrace of South African life assurer Liberty Life by the Standard Bank Investment Corporation, one of the country's big four banks. The two have been exchanging longing looks for some time, but the forbidding figure of Liberty's founder Donny Gordon always seemed to be lurking in the wings to scare suitors away.

It was only on Friday that Gordon announced that he was stepping down after 42 years at the head of Liberty Life. Stanbic didn't hang about – investors were piling into both outfits' shares expecting nuptials.

For Gordon, innovation was the making of his business empire, and maybe it was innovation that finally pushed him out of it. He insists he always intended stepping down from Liberty Life when he reached 70 – next year – to spend more time on his farm.

The business which began in the late 1950s with R100,000 of capital is now worth about R27bn after leading the way in glitzy, newfangled notions like unit trusts and big shopping malls. But lately Gordon has been getting more and more tetchy with the latest breed of innovators – speculators, derivatives traders and other assorted smart alecs. Meanwhile, Liberty's fund performance hasn't been helped by his insistence on corporate track records at a time when new technology stocks have been burning rubber.

One of Gordon's least favourite terms was said to be *bancassurance* – a word bandied about enthusiastically yesterday by Stanbic chief Mike Vosloo. Life will never be the same again at Liberty.

The Financial Times

100 years ago

German Naval Competition
According to a writer in the "New York Post," the politeness of Porto Ricans is phenomenal. "To this day in Porto Rico," he says, "when a native boards a passenger coach and the door is closed, he invariably knocks politely and waits until someone rises and bids him enter. Then he goes from seat to seat and solemnly shakes hands. He also wishes his fellow travellers good health and the protection of the saints." This suavity of manner will be much appreciated by those urbane and obliging gentlemen, the Yankee conductors.

50 years ago

Germany As Competitor
Rising German competition has rightly been the subject of some disquiet to British industry since the currency reform revitalised German production. But the comments made by Government representatives in the House of Commons yesterday should allay the fears so freely expressed that this competition was "unfair." Since the uniform rate of 30 cents to one Mark was introduced, German export prices have been related directly to production costs.

FINANCIAL TIMES
WEDNESDAY FEBRUARY 10 1999

THE LEX COLUMN

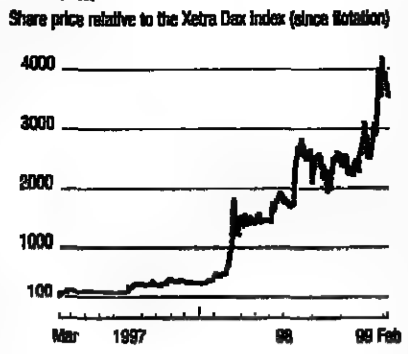
Upwardly mobile

From its name, one might think Mobilcom was a mobile phone company. And, in a way, it is. But while the German telecommunications group still resells mobile phone services, its runaway share price rests on success in fixed services. From a standing start last year, it grabbed 10 per cent of the long-distance market. Its cut-throat pricing and cheeky advertising did not simply catch incumbent Deutsche Telekom unawares but left heavily capitalised new entrants – like o.tel.o and Viag Interkom – flat-footed.

The result is that Mobilcom is now worth nearly DM11bn despite precious little capital investment. And its founder, *Gerhard Schmid, has become an icon of* popular capitalism in Germany. The Mobilcom phenomenon is like the wild enthusiasm for internet stocks in the US. The only difference is Mobilcom actually makes money – DM141m after-tax last year.

There is just one snag. Mobilcom's business model – arbitraging the difference between the high prices DT charged for long-distance calls and the low cost Mobilcom had to pay to use DT's network – does not look sustainable. Both other new entrants and DT itself are slashing charges. If Mobilcom is to justify its share price, it will have to reinvent itself again. Given its fleetness of foot, that cannot be ruled out. Alternatively, it could sell itself to one of its stodgy rivals which have *invested a packet but so far failed to sign* up many customers.

Mobilcom
Share price relative to the Xetra Dax Index (since flotation)



Source: Datastream/ICV

SmithKline Beecham

Having tried and failed twice to merge last year, SmithKline Beecham now wants to stay independent. Yesterday, it presented strong reasons for this change of heart, raising $2bn from the sale of peripheral businesses and setting itself earnings targets that would, if achieved, put it near the top of the European drugs league table. The board has at least put down a marker that it is not looking for a partner at any price.

In part, the group's bullishness reflects heightened optimism about the prospects for its new diabetes drug, Avandia. This, with buoyant sales of Paxil, its anti-depressant blockbuster, have emboldened SmithKline to set a target of mid-to-high teens earnings growth from 2000 onwards. This is pedestrian compared with the 20 per cent plus growth generated by US rivals such as Pfizer, but is respectable compared with European rivals. And against last year's 10 per cent growth, it would be a strong improvement.

In the short term, SB will be helped by its new business efficiency programme, which is designed to generate pre-tax cost savings of £200m a year by 2002. Indeed, this year, the group should be able to hit its 13 per cent earnings growth target simply be capturing the promised savings. Longer term, however, much depends on whether Avandia delivers. *If not,* SmithKline will be unable to maintain its *independence however much it may want* to.

USA Networks/Lycos

Barry Diller is changing from media mogul to internet chef. By merging large parts of his USA Networks empire with internet portal Lycos, Mr Diller claims to be creating the world's broadest on-line offering, encompassing everything from "old soup to new nuts". Into the pot go USA Networks' television shopping network, its web-based auction service and Ticketmaster ticketing. Lycos adds its collection of internet sites, which attract 30m users.

Whether all this gels into a tasty mixture of information, entertainment and e-commerce depends on the new company's ability to cross sell and, to a lesser degree, on whether USA Networks' TV stations (which remain outside the deal) can powerfully promote the Lycos brand. Certainly Lycos' argument that investors should value the new company at $45bn – taking next year's $1½bn of estimated revenue and Lycos' current rating of 30 times sales – is ridiculous. After all, nearly the entire revenue comes from USA Networks' far slower-growing home shopping channel.

In fact, this notion looks like a desperate attempt to hide the fact that Mr Diller seems to have got the best of the deal. USA Networks will end up with 61¼ per cent of the new company. Lycos, despite its scarcity value as one of the last independent portals, is not even receiving a *premium.* It is no wonder its shares fell more than 20 per cent, while USA Networks' jumped by a tenth.

Reuters

For the first time since mid-1996 it has paid to be a bull of Reuters. Up 100 per cent from their October low, shares in the financial information group have miraculously reversed two years' underperformance. How so? It is not as if Reuters' core business has been transformed. As yesterday's results showed, the high-growth beast that offered double-digit top-line growth with 20 per cent-plus margins remains caged. Revenues grew just 5 per cent and operating margins fell 0.6 percentage points. And growth is expected to slow further this year as banking consolidation accelerates.

Two things, however, have changed. First, Reuters has at last organised itself along product lines, a sensible move now the era of rapid expansion is over. Shaking up management and diverting capital to faster-growing businesses should protect margins and boost revenues.

Second, the internet-swell has lifted all ships. True, Reuters has modified its business model to attract online customers. Some of its "Greenhouse Fund" investments in internet companies have also paid off both in profits and insights into cyberspace. But the internet remains more threat than opportunity.

And as Reuters' ill-timed decision to sell down its Yahoo! stakes shows, it is hard to see why investors should use Reuters as fund manager when they can punt on internet stocks just as effectively themselves.

Romans fear chaos over millennium celebration

Special pilgrimage is expected to attract an extra 25m visitors

It is being billed as one of the highlights of Pope John Paul's reign, a year-long celebration of 2,000 years of Christendom.

But 318 days before Rome's Jubilee *year celebrations begin, both the* Vatican and the Italian government are being warned that the event could be a logistical disaster.

Four years ago, the Pope announced that he wished to turn the year 2000 into a *Giubileo*, a rare "Holy Year" in which Roman Catholic pilgrims are invited to travel to Rome to strengthen their faith and have their sins remitted.

The Italian government is expecting 25m additional visitors to visit Rome in 2000 to attend a variety of religious events and concerts. This is a significant increase on the 10m tourists who visit Rome annually.

The Italian capital, with a population of little more than 3m and a poor level of public administration, is far from equipped for a human influx on this scale.

After the Pope's announcement, the Italian government voted some L3,500bn ($2bn, €1.8bn) for infrastructure projects such as transport links and building renovation.

But the contribution from the Vatican has been more modest – Italian officials say they think it has spent "between L100bn and L200bn" on the event.

One official said: "The Holy See has been allowed to dictate the scale of this very ambitious event, passing the burden on to the Italian government to make sure that it works."

Italian newspapers are already forecasting another Italian-style botch-up. Government ministers and Francesco Rutelli, Rome's mayor, say the doom-mongers are revelling in the typical national sport of self-demotion.

There is no doubt that government offices have been slow to get construction projects under way, amid continual infighting and bureaucratic delays.

And as they weave their way around the roadworks, many Romans feel an increasing antipathy towards an event that looks set to make life in Rome rather uncomfortable.

"Only at the start of 1997 did funds for the Jubilee come on stream and only at the start of 1998 did the first construction sites actually open," admits one of the most senior officials co-ordinating the project.

All these projects have a deadline of December 24. The Pope is due to inaugurate the Jubilee by opening the Holy Door of St Peter's on Christmas Eve.


Pope John Paul: a special invitation for Roman Catholic pilgrims

It is still far from clear how many will be completed in time. Building renovation, helped by private sector sponsorship, is progressing well. Considerable progress is being made cleaning up the front of St Peter's, the Palazzo Venezia, the main basilicas and a host number of famous landmarks. But as officials admit, this kind of renovation is comparatively easy.

Amid infighting and delays, newspapers are forecasting an Italian-style botch-up

The far bigger worry lies with the logistics of moving some thousands of pilgrims around Rome each day.

Two projects are vital for this. Via Della Conciliazione, the great avenue in front of Vatican Square, must be closed to vehicles to accommodate the expected flood of pilgrims.

This means a large underpass has to be built alongside the Tiber river if normal traffic is to be diverted. A metro line must also be built out to the north of the city to create a "park-and-ride" link so that pilgrims' buses stay out of the city centre.

Both projects ought to be completed within the deadline, but there have been significant delays already. "We cannot afford one more delay of any kind or we will miss the deadlines," said an official.

There are other concerns. Rome has too little accommodation to house a pilgrimage on this scale. Officials are seeking another 7,000 beds a night. The organisers must find a further 8,000 police for duty in the capital and some 50,080 young volunteers to give assistance.

The highlight of the year, a three-day youth festival for 2m young people in August, is one of the biggest headaches (15,000 portable lavatories must be found, for instance.) An official says he has had "too little time to plan an event on this scale".

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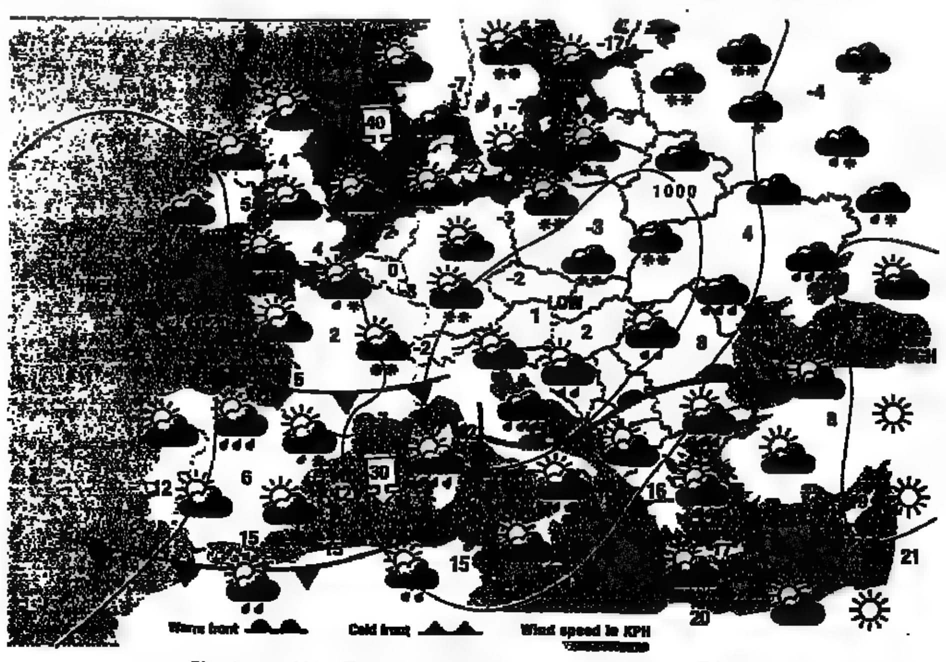
FT WEATHER GUIDE

Europe today
Greece and Cyprus will be mild with sunny spells, but north-west Greece may have rain towards evening. Italy will have heavy rain, although the far north will be drier. Spain and Portugal will be mainly dry and bright, but it will be chilly with showers in the north. It will continue cold across much of central and northern Europe, with sunny periods and scattered wintry showers.

Five-day forecast
Central and north-western Europe will become more settled towards the weekend, with wintry showers mostly dying out as high pressure builds. Much of Scandinavia and the British Isles will turn less cold, with a south-westerly airflow developing by Friday. Showers over Italy will move east to affect Greece.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	28
Accra	Sun	32
Algiers	Shower	15
Amsterdam	Thunder	3
Athens	Fair	18
Atlanta	Fair	24
B. Aires	Sun	27
B.ham	Fair	3
Bangkok	Fair	31
Barcelona	Shower	11
Beijing	Sun	5
Belfast	Sleet	4
Belgrade	Rain	6
Berlin	Fair	-3
Bermuda	Fair	21
Bogota	Fair	19
Bombay	Sun	30
Brussels	Snow	0
Budapest	Sleet	2
C.hagen	Fair	-2
Cairo	Sun	21
Caracas	Sun	28
Cardiff	Fair	4
Casablanca	Shower	16
Chicago	Cloudy	12
Cologne	Snow	0
Dakar	Sun	25
Dallas	Sun	27
Delhi	Fair	20
Dubai	Sun	29
Dublin	Fair	5
Dubrovnik	Rain	10
Edinburgh	Fair	4
Faro	Sun	15
Frankfurt	Snow	1
Geneva	Snow	-2
Gibraltar	Fair	17
Glasgow	Fair	4
Hamburg	Fair	-1
Helsinki	Fair	-17
Hong Kong	Sun	22
Honolulu	Fair	27
Istanbul	Fair	14
Jakarta	Shower	29
Jersey	Fair	7
Johannesburg	Fair	25
Karachi	Fair	28
Kuwait	Sun	24
L. Angeles	Fair	15
Las Palmas	Fair	20
Lima	Fair	27
Lisbon	Sun	12
London	Fair	4
Lux.bourg	Snow	-3
Lyon	Snow	-1
Madeira	Fair	18
Madrid	Fair	8
Majorca	Shower	12
Malta	Fair	17
Manchester	Fair	3
Manila	Fair	30
Melbourne	Fair	30
Mexico City	Sun	25
Miami	Fair	27
Milan	Fair	4
Montreal	Fair	1
Moscow	Snow	-4
Munich	Snow	-3
Nairobi	Fair	28
Naples	Shower	12
Nassau	Fair	26
New York	Fair	8
Nice	Fair	7
Nicosia	Fair	19
Oslo	Fair	-7
Paris	Sleet	2
Perth	Sun	30
Prague	Fair	-2
Rangoon	Sun	34
Reykjavik	Sleet	5
Rio	Fair	32
Rome	Rain	12
S. Frsco	Fair	12
Seoul	Sleet	4
Singapore	Cloudy	31
Stockholm	Fair	-7
Strasbourg	Snow	0
Sydney	Shower	26
Tangier	Shower	14
Tel Aviv	Sun	21
Tokyo	Fair	10
Toronto	Fair	5
Vancouver	Shower	4
Venice	Shower	6
Vienna	Fair	1
Warsaw	Fair	-3
Washington	Fair	16
Wellington	Fair	18
Winnipeg	Snow	-1
Zurich	Snow	0

FINANCIAL TIMES
COMPANIES & MARKETS
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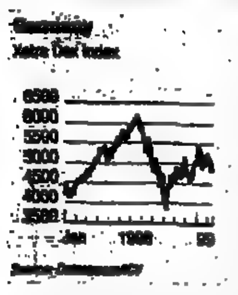
WEDNESDAY FEBRUARY 10 1999
Week 6

INSIDE

Nomura chief under fire
When Junichi Ujiie, 58, was unexpectedly appointed president of Nomura Securities in 1997, many of the broker's younger staff cheered. Mr Ujiie seemed just the man to turn Nomura into a modern, internationally minded investment bank, given his relatively tender age and extensive experience in the US and Europe. Eighteen months later, the cheers have dissolved into bitter bickering. Can Mr Ujiie reunite the company and secure his position? Page 17

Potanin pledge on Uneximbank
Vladimir Potanin, one of Russia's most influential businessmen, has pledged that bondholders and other creditors should eventually receive back all their money in Uneximbank, the powerful Russian financial institution in which he has a controlling interest. His comments come after Uneximbank failed to meet a coupon payment on its $250m Eurobonds that was due at the start of this month. Page 24

Dax struggles to make ground



Frankfurt's stock market has been outperformed by other European bourses this year, and the immediate outlook is not good. A downturn in the German economy, a wage dispute in the metal industry, and doubts about the centre-left government's intentions towards business are all depressing sentiment. The Dax's lacklustre performance is also partly the result of last year's financial and economic turmoil in Asia, Russia and Latin America. Page 36

Thailand abandons rubber pact
The pact between the world's leading rubber producers faces collapse after a decision by Thailand, the world's biggest natural rubber producer, to abandon the agreement. The Thai cabinet approved withdrawal from the International Natural Rubber Organisation (Inro), after criticising the organisation for failing to act decisively to support prices. Page 26

Uncertainty keeps yen mired
Uncertainty about the Bank of Japan's willingness to pump money into the economy kept the yen mired in familiar territory against the dollar. Masaru Hayami, the Bank of Japan's governor, seemed to suggest that the central bank rejected the principle as well as the legality of monetising the country's debt. Page 25

Paris cashes in January gains
Profit-taking across the board and fears that interest rates in Europe may have bottomed out sent Paris sharply lower at the close of a volatile session. The CAC 40 recorded its steepest correction since the Brazilian devaluation last month. Page 36

COMPANIES IN THIS ISSUE

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MARKET STATISTICS

Diller's USA Networks buys internet search group

By Roger Taylor in San Francisco

Barry Diller, the media mogul who runs the Home Shopping Network, has snapped up Lycos, one of the leading internet companies, to create a powerful e-commerce group.

The deal is structured as a merger of equals, offering little premium to Lycos shareholders. However, in effect, it is a takeover of Lycos by USA Networks, Mr Diller's company.

USA Networks will end up owning 61.5 per cent of the new group and controlling 90 per cent of the votes.

The move prompted a 20 per cent drop in Lycos shares to $101⅛. The stock had risen in recent weeks on hopes a large media company would pay a high price for the group, as Lycos was the last remaining internet search business thought susceptible to a takeover. In contrast, USA Networks' shares rose 11 per cent to $42¾.

The implication that sky-high valuations attached to internet companies might not be realised helped spark a reverse in the Nasdaq composite index, which is heavily weighted to technology stocks. By early afternoon it was down 54.46, or 2.3 per cent, at 2,350.46.

The deal creates a new company, USA/Lycos, by combining three different operations – the Home Shopping Network, Lycos and Ticketmaster Online-Citysearch. Mr Diller will be chairman. Robert Davis, Lycos chief executive of Lycos, will be chief executive.

The three businesses each bring assets to the combined entity. The Home Shopping Network, part of USA Networks, operates the cable channel which broadcasts non-stop advertisements and has its own internet operations.

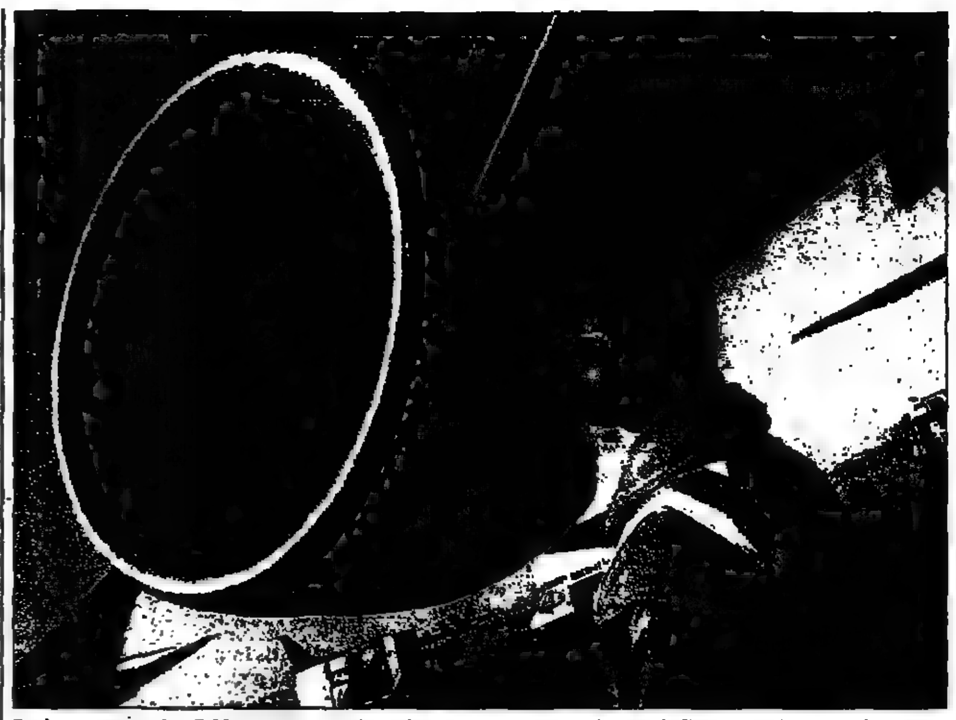
Lycos commands one of the largest audiences on the internet through a range of popular Internet sites, including two search engines – Lycos.com and Hotbot.com – as well as community sites such as Tripod.com and magazines such as Wired.com. The company also recently moved into online retailing.

Ticketmaster Online-Citysearch is an internet business offering local entertainment information as well as a way to buy tickets through the internet. It is 62.5 per cent owned by USA Networks.

The group will be worth about $20bn, with 30 per cent going to Lycos shareholders and 8.5 per cent going to Ticketmaster shareholders, including USA Networks. It will be well placed to benefit from the growth of e-commerce and the growing convergence between TV and the internet.

Lycos' share of the business is worth about $7bn compared to market value before the deal was announced of about $6bn.

Lex, Page 14



Business as usual: a British Airways engineer inspects an engine at London's Heathrow airport as the airline shrugs off a £75m loss. Shares rose on confidence over its long-term strategy. Page 21 Ashley Ashwood

SmithKline announces disposals and shake-up

By David Pilling, Pharmaceuticals Correspondent

SmithKline Beecham yesterday surprised markets with a series of measures, including disposals and a restructuring of its manufacturing operations, as it laid out ambitious growth targets for the next three years.

The Anglo-American drugs group confirmed it was winding up its healthcare services division with the sale of Diversified Pharmaceutical Services, a pharmacy benefit manager, for $700m and the disposal of Clinical Laboratories for $1.025bn.

Jan Leschly, chief executive, promised 13 per cent earnings growth for 1999, and growth in the mid-to-high teens in the following two years. That compares with all but the highest fliers of the sector and is aimed at reaffirming SB's future as an independent company after two aborted merger discussions last year.

SB also brought forward its full-year results by a week, announcing underlying earnings growth in line with expectations at 10 per cent, and just meeting Mr Leschly's pledge of low double-digit growth.

Although the DPS sale, to Express Scripts of the US, fetched far below the $2.3bn SB paid for the business in 1994, analysts welcomed the retreat from what had been regarded as a disappointing venture. The sale of DPS, which is subject to regulatory review, will produce a one-time, post-tax loss of £446m ($731m) in 1998.

In addition, SB said it was rationalising its supply chain and concentrating production of chemicals and drugs in fewer plants. That would entail 3,000 job losses and a restructuring charge of £750m over four years.

SB reported fourth-quarter pre-tax earnings up 7 per cent to £508m from £483m last time on sales of £2.77bn (£2.14bn).

Full-year earnings per ordinary share were 20.3p (19.1p), 6 per cent higher, and 10 per cent up in underlying terms. SB declared an interim dividend of 3.66p (3.33p). Shares rose 33p to 831½p.

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SB plays solitaire, Page 21

Mobilcom profits up ninefold to $144m

By Frederick Stüdemann in Bonn

The dynamism of Germany's newly liberalised telecommunications sector was highlighted yesterday when Mobilcom, one of the most aggressive new entrants, announced a ninefold increase in 1998 pre-tax profits to DM250.5m (€128m, $144.6m).

The company, which relies on telephone lines owned by Deutsche Telekom, the partially privatised former monopolist, said it had taken about 10 per cent of the long-distance market. Sales rose fourfold to DM1.47bn.

Mobilcom, based in Büdelsdorf, a small town in northern Germany, symbolises the furious pace of change engulfing Europe's biggest telecoms market since liberalisation last year.

The arrival of about 50 new companies in the market has sparked a price war, pushing down the cost of calls by as much as 70 per cent, according to the industry's regulatory body.

The key to Mobilcom's success has been the low interconnection charges set by the regulator for companies using Deutsche Telekom networks and an aggressive marketing campaign. The 2.7 pfennigs per minute interconnection charge allowed Mobilcom to undercut Deutsche Telekom, which has lost as much as 30 per cent of its share of the long-distance market, as well as fellow private-sector competitors, such as Mannesmann Arcor, o.tel.o and Viag Interkom.

Yesterday's figures were ahead of expectations. But analysts cautioned that, as the German telecoms market moved into a phase of consolidation, Mobilcom would be hard-pressed to maintain its strong growth.

Thomas Karlowits, analyst at Cheuvreux de Virieu in Frankfurt, said the price war would squeeze margins while fixed costs, such as the interconnection charge, remained. He said telephone users attracted by low prices were not loyal to any one company so that "the customer relationship to Mobilcom does not exist".

The company also suffered a setback on Monday when regulators set a relatively high monthly charge for access to the local call market.

Lex, Page 14
Telecom shares fall, Page 16
Competition hits Europe, Page 18

Lachlan Murdoch bolsters News Corp role

By Gwen Robinson in Sydney

Lachlan Murdoch, the 27-year-old son of Rupert Murdoch, founder and chairman of News Corp, yesterday strengthened his position as heir to his father's global media empire.

News Corp said Lachlan Murdoch would take charge of the group's US print operations in addition to his current role as chief executive of News Ltd, News Corp's Australian arm. He will divide his time between Australia and the US, where the group's print operations include HarperCollins, the book publisher, the New York Post tabloid newspaper and a newspaper insert and in-store advertising and marketing business.

Lachlan Murdoch, who already sits on the News Corp board, will join the group's six top executives in the chairman's office – the only family member to join his father in the News Corp nerve centre. The group's president and chief operating officer, Peter Chernin, and co-chief operating officer David DeVoe are among those in the chairman's office.

Media analysts said the appointment was a "logical step" for Lachlan Murdoch, but expressed surprise at the timing of the announcement. Rupert Murdoch had previously named Lachlan as his most likely heir, but said last year no decision had been made on which of his offspring would succeed him.

All three children from Rupert Murdoch's second marriage, to Anna Murdoch, are involved in the business. Daughter Elisabeth, heads the group's BSkyB television affiliate in London while younger son, James, is deputy publisher of the New York Post.

Speculation about the future of News Corp's leadership has grown since Anna Murdoch began divorce proceedings last July. Concerns about potential claims on the business by Mrs Murdoch weighed on the group's share price. Rupert Murdoch, 67, wants to accelerate plans for an eventual succession, but has privately indicated he has no plans retire in the next few years.

Analysts said Lachlan's promotion was the strongest sign yet that he would succeed his father as News Corp's chairman, but was not an official guarantee.

BARRY RILEY

Gips make progress

The use of performance data in marketing remains one of the murkiest areas of the investment business, but there is positive news on Global Performance Presentation Standards (Gips), the international framework for facilitating the comparison of investment returns. The full standard has been agreed, for publication in March or April.

Gips represent an international extension of the performance presentation standards first launched by the US Association for Investment Management and Research in 1987. The idea is that these global standards can be harmonised with national performance codes already promoted in the UK and Switzerland.

In Europe there is already commercial pressure on investment managers to adopt AIMR-PPS when seeking business from US-based clients. There is also concern that to leave a vacuum would encourage the European Commission to launch a heavy-handed directive.

Gips, published in draft form a year ago, are therefore benefiting from a following wind. Some insights on compliance by European investment managers can be gained from a survey to be published by PwC, paralleling a survey of US compliance released last month.

Briefly, the US and global standards involve the allocation of all client portfolios to so-called "composites", or groups of accounts managed in a similar style. The judgments here are made by each firm although provision exists for independent "verification".

Such verification is voluntary so far, but may become mandatory for Gips after 2005. This is where the auditing firms like PwC come in, because the Big Five dominate the verification activity. Both the US and European surveys had quite low response rates, and the results are clearly biased in favour of those managers enthusiastic about compliance.

But some differences emerge clearly. For example, US respondents are mostly (71 per cent) independent, whereas in Europe two-thirds are subsidiaries of banks or insurance companies.

In Europe, consolidation is proceeding so fast that, according to PwC, it is hard to keep the address list up to date. Already half the European respondents define more than 20 composites (a third have over 50) yet 55 per cent of US firms list 10 or fewer.

It is going to be difficult to extricate meaningful track records from the tangle of European mergers. Perhaps the euro will simplify the future landscape. But the euro has also wiped out the relevant history of many composites; according to the survey this applies more to bonds than equities.

There are several areas of particular controversy. "Carve-outs" of specialist portfolios from balanced mandates pose problems over the allocation of liquidity.

Both in the US and Europe, some firms claim to be in "partial compliance", thus falling into a trap set by PwC's questionnaire because the standards make it clear that compliance must be firm-wide in order to prevent bad returns being buried out of sight. But the real arguments over the potential manipulation of composites mainly surface in the debate over verification.

The AIMR-PPS define Level I and Level II verification. Level II is far more common in the US, and the auditors are apparently more comfortable with it because it covers the minutiae of time-weighted rate of return calculations rather than involving second-guessing the clients over composite construction. Such disagreements might ruin relationships.

The standards boards, however, think clients are far more likely to be misled through the cherry-picking of composites than because the odd dividend cheque has gone astray.

Gips, therefore, allow only one verification level, which is more like Level I. Committees of accountants are busy discussing the issues on both sides of the Atlantic.

Cleaning up performance claims was never going to be easy. Still, two-thirds of the European respondents believe that Gips will be fully acceptable world-wide within five to 10 years.

FINANCIAL SERVICES SOUTH AFRICAN INSTITUTIONS AIM FOR FULL MERGER LATER THIS YEAR

Stanbic to take control of Liberty Life

By Victor Mallet in Cape Town

Standard Bank Investment Corp (Stanbic), the South African bank, is to buy control of Liberty Life for R5.59bn ($938m) to promote the cross-selling of life assurance and banking services. Executives say the transaction should lead to a full merger in 1999 to create one of South Africa's biggest financial services companies.

The two groups have been linked since 1983 and have shareholdings in each other, but merger talks last year faltered because of objections from Donald Gordon, Liberty Life's founder and chairman.

His announcement last week that he would retire this year paved the way for the deal. "The founder is now removed from the equation," said a senior Stanbic executive.

Stanbic is buying 50 per cent of Liblife Controlling Corp, the holding company, from Liberty Investors, the Johannesburg-listed company through which the Gordon family have dominated the Liberty Life group.

Stanbic already holds the other half of Liblife Controlling. The Liberty Life group, meanwhile, retains an effective 40 per cent stake in Stanbic.

The aim is to merge the two companies into a listed holding company that would have wholly-owned subsidiaries, one in banking and one in life assurance.

This would further simplify the pyramid of companies in the Liberty Life group. Other South African companies are simplifying their structures following the end of apartheid in 1994 and the opening of the country to international markets.

In the meantime, Stanbic and Liberty Life will continue to operate independently. "They will, however, immediately begin to explore profitable areas of mutual co-operation, such as bancassurance," the companies said.

Stanbic plans to pay R3.24bn in cash (at least R1.5bn will be raised by a share placing), by issuing 85.7m Stanbic shares with a total value of R1.5bn, and by transferring to Liberty Investors R850m of shares in London-listed Liberty International Holdings.

Stanbic also announced that 1998 profits had been hit by a £31m ($50.6m) loss on international operations, mainly because of debt default in Russia. South African banking operations, however, increased headline net profit by 37 per cent and overall net profit rose 8 per cent to R2.06bn.

Observer, Page 14

Telecoms shares fall on price fears

By David Owen in Paris

Telecommunications stocks across Europe fell yesterday on fears that falling prices and heavier regulation would hit operators' profitability.

France Telecom's shares fell sharply on the depressed Paris market after the operator announced it was cutting the price of long-distance and international phone calls for the third time in two years.

The shares closed at €74.35, down €3.40, or 4.4 per cent – compared with the 2.8 per cent fall in the benchmark CAC-40 index.

Shares in Deutsche Telekom, which earlier this year cut international and long-distance prices by more than 50 per cent closed at €36.10, down 6.5 per cent. Telefónica, the Spanish operator locked in a dispute with its regulator, saw a 3.9 per cent decline to €38.25, while Telecom Italia shares fell 4.8 per cent to close at €8.05.

A principal fear among investors is that regulators are setting interconnection charges – the price of linking to a dominant operator's network – at levels which encourage new competitors to undercut incumbents' prices so savagely that the operator is forced to respond in kind, threatening the profitability of all the companies.

The chief beneficiaries of France Telecom's cuts, however, will be its customers. The company is, however, increasing subscription charges by FFr5-FFr10 (€0.76-€1.53, $0.86-$1.72) a month as it "rebalances" income from calls and line rental.

The group announced yesterday that the price of international calls was to fall by 10 per cent on average from March 1, with rates for long-distance national calls dropping by 12 per cent.

At the same time, the cost of a so-called principal subscription rate will rise from FFr68 to FFr78 a month, nearly 15 per cent.

This latest rise is significant since it will bring subscription prices more or less in line with the real cost of installing and maintaining a line. "With the measures of March 1999, the rebalancing process will be essentially complete," the company said. "From now on, the evolution of tariffs will fulfil an entirely commercial logic."

Europe's operators add up to a wrong number

The telecoms sector is on a high but could face a less rosy future, **writes Alan Cane**

Europe's growing band of telecommunications operators are peering apprehensively into a future in which collapsing prices and sharply narrowing margins will threaten the survival of all but the most agile or prosperous.

Some would claim this to be a dramatic overstatement at a time when most operators are reporting healthy growth and telecoms' stocks are hitting unprecedented highs.

But Graham Louth, principal consultant with Analysys, a the Cambridge-based telecoms consultancy, said Europe's operators will have to re-assess their strategies, moving away from easy profits in long distance and international markets to tackle the difficult local exchange market. "It is difficult to see how all these operators can survive in the long distance market," he said.

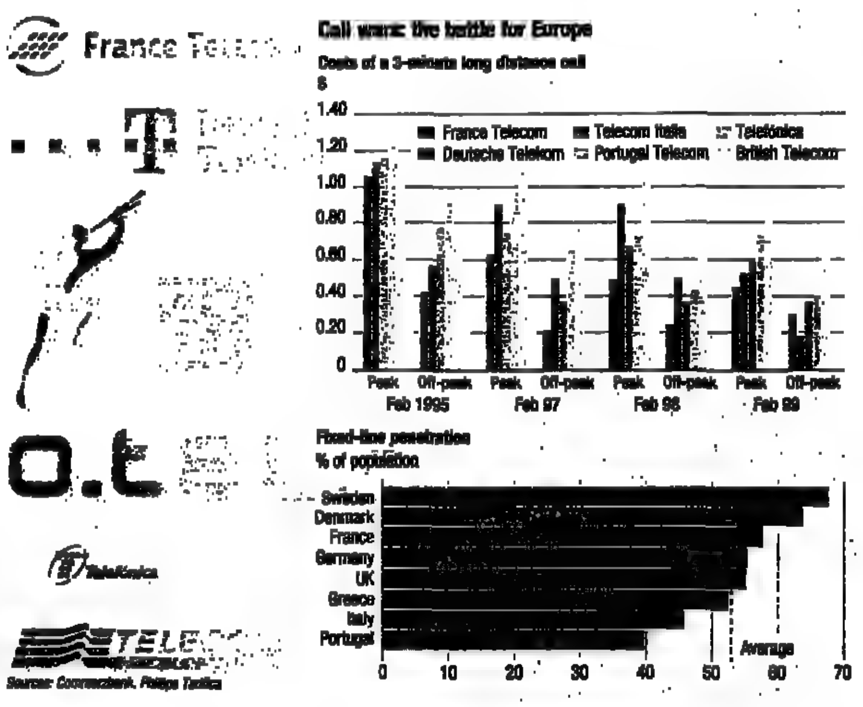
Germany, Europe's largest market offers a glimpse of what might happen. New competitors have taken advantage of low charges for connecting their networks to Deutsche Telekom's to take as much as 30 per cent of the former monopolist's long distance market share. Deutsche Telecom has retaliated with price cuts of more than 50 per cent that have shocked the industry.

Margrit Sessions, managing director of Phillips Tarifica, the tariff specialist said: "This latest drop in Deutsche Telekoms's pricing is a precursor to many similar cuts in call rates throughout the coming months."

Pat Gallagher, British Telecommunications' European head, warned that the German operator does not realise that the price cuts could have negative long-term effects. "I believe the company does not know what effect such massive price cuts will have on the development of its sales and profit."

Yesterday the German regulator countered the low 2.7 pfennigs (€1.38, 1.55cents) a minute inter-connection fee with a relatively high charge of DM25.40 a month for local access. Deutsche Telekom's competitors, which had wanted a fee of only DM15-DM20 immediately complained that the charge would stifle competition. Deutsche Telekom's monthly line rental charge is DM21.39. Without cross-subsidies, it is difficult to see how its competitors can make money from local services.

In the Netherlands, a stark signal of the impact new competition could have on the incumbent, even in the earliest days of deregulation came from KPN, the dominant operator. It revealed last month that traffic volume grew more than 20 per cent last year while the prices it was achieving fell 11 per cent.



Source: Commerzbank, Phillips Tarifica

Even in southern Europe, where regulation has traditionally been less strict – leading to greater profitability for incumbents – the pressure is building. Telefónica, Spain's former monopoly carrier is locked in a legal row with the regulatory authorities after refusing to respond to proposed interconnection rates that were well below the level it had requested.

Portugal Telecom, which has a special dispensation to retain its monopoly until 2000, is feeling the pressure of price competition in areas already liberalised, particularly mobile operations. Optimus, the newest of Portugal's three mobile operators was undercutting Telecom's international tariffs in December by as much as 67 per cent. The state operator knows it will have to cut international revenues by 20-60 per cent to stay competitive; it is planning to recoup its losses by increasing the cost of local calls by more than 8 per cent.

France, however, seems relatively unaffected by price pressures. France Telecom left its rates largely unchanged last year but yesterday announced a 12 per cent cut in long distance and 10 per cent cut in international prices with a further 9 per cent cut promised by the end of 2000.

The former monopoly operator had chosen to pre-empt full liberalisation by reducing its fixed line charges three times in 1996-97, resulting in steep cuts in international and long distance call rates over the period.

Additional reporting by Frederick Stüdemann in Bonn, David Owen in Paris, Gordon Cramb in Amsterdam, Tom Burns in Madrid and Peter Wise in Portugal.

Assi profits fall as land spin-off is delayed

By Nicholas George in Stockholm

Shares in AssiDomän fell 7.6 per cent yesterday after the Swedish forestry products group announced a 31 per cent fall in pre-tax profits for 1998 and admitted that plans to spin off a large part of its forest holdings had been delayed.

The problem came to light as the company warned that the weak market for its products would continue during the first half of 1999, blaming the Asian crisis for the fall in demand.

In the 12 months to December 31, pre-tax profits fell from SKr1.46bn ($184.8m) to SKr1bn with operating profits down from SKr1.85bn to SKr1.58bn.

The company described the earnings trend as "unsatisfactory" and promised that "measures will be taken to raise low profitability". But it gave no specific details, saying only that a review of group strategy would be carried out.

Lennart Ahlgren, chief executive, said last year's results were distorted by heavy investment and one-off items. He pointed out that underlying profits had improved, with better results in all divisions, except packaging.

Earnings per share fell from Skr6.50 to SKr6 with a proposed dividend of 5.50 unchanged from a year earlier. Assi shares fell SKr11.50 to SKr139.50.

The share price was hit by news that Assi's plans to spin off about 900,000ha of land to a separate company, Sveaskog, had been delayed by claims by Sweden's agriculture board that the move was a breach of land purchase laws. Once the land has been spun-off, the government has agreed to acquire all Sveaskog shares against a portion of its 50.2 per cent holding in Assi.

Mr Ahlgren said Assi would appeal against the agriculture board's objection.

NEWS DIGEST

PULP AND PAPER

StoraEnso suspends plans to build plant in Brazil

StoraEnso, one of the world's largest pulp and paper groups, yesterday confirmed it had suspended plans to set up a $1.5bn pulp plant in Brazil because of the financial crisis in the country. The group, formed by the merger last year of Stora of Sweden and Finland's Enso, said the financial situation in Brazil meant it was not possible to raise finance for the joint venture with Brazil's Odebrecht group. Bjorn Hägglund, StoraEnso deputy chief executive, said it was "evident that it was impossible to finance at reasonable rates at the moment". **Nicholas George, Stockholm**

BANKING

Sanpaolo IMI rises 140%

Sanpaolo IMI, Italy's largest banking group in terms of assets, yesterday released strong preliminary 1998 figures showing consolidated net profits rising by about 140 per cent to L1,750bn (€904m, $1.02bn). The profits are the first to be reported since the Turin-based bank merged with the Rome-based IMI group last year and the comparisons with 1997 are on a pro-forma basis. The banking group said its return on equity last year rose to 11.3 per cent. The encouraging performance reflected strong growth in commission income as well as cost cutting. The group's consolidated operating profits rose 40 per cent on a pro-forma basis to L4,200bn last year. **Paul Betts, Milan**

SHARE SALE

Air France priced at €14.20

The French government yesterday priced this month's Air France share sale at the top of the indicative price range and said the reservation period had been a big success. The price set for the initial public offering is €14.20 a share for institutions and €14 for individual investors. The government said this valued the company at FFr20.5bn (€3.1bn, $3.5bn). The offering, which will put a minority of the national carrier's capital in private hands, is the first significant privatisation transaction of 1999 and is set to raise some €600m for the French government. Yesterday's announcement comes shortly after it emerged that SairGroup, the parent company of Swissair, was buying 49 per cent of AOM, one of Air France's main domestic competitors. **David Owen, Paris**

AUSTRIA

VA Tech merges divisions

VA Tech, Austria's biggest engineering company, said yesterday it was pulling out of thermal power generation engineering and merging its thermal power generation, waste treatment and gas cleaning technology businesses with those of Deutsche Babcock, a German engineering company. The move is the latest evidence of the pressures for consolidation in an industry which is suffering from overcapacity, a rapid switch from coal to gas-fired generation and a collapse in Asian demand. Deutsche Babcock has lost money for several years. VA Tech is injecting businesses with sales of €327m and a staff of 1,800 into a new company which will have sales of €2.24bn ($4.38bn) and 11,400 staff. The industry is dominated by companies such as General Electric of the US, Switzerland's ABB and Germany's Siemens, all of which have their own technology. **William Hall, Zurich**

SLOVAKIA

Steel group speeds sell-offs

VSZ Holding, the heavily indebted Slovak steel group, yesterday said it expected to make a Sk5bn ($133m) loss for 1998 and was accelerating plans to sell off non-core businesses. Gabriel Eichler, president, said the company had made a net loss of Sk3bn in the first 11 months. VSZ Holding made a consolidated net profit of Sk262m in 1997. VSZ, Slovakia's biggest industrial company, defaulted in November on a $35m syndicated loan from Merrill Lynch. **Robert Anderson, Prague**

South Korea sets record bank losses

By John Burton in Seoul

South Korea's 22 commercial banks yesterday reported a record combined loss of Won14,480bn ($12.3bn) for 1998 as the nation's financial crisis caused them to write off debts to troubled conglomerates.

It was the second consecutive year of bank losses following a deficit of Won3,880bn in 1997. Some analysts predict 1999 earnings could be nearly as bad as last year due to continued corporate restructuring, although most expected a recovery by 2000.

"Provisions lag far behind loan losses. We will see more debt write-offs this year," said Terence Lim, analyst for Merrill Lynch in Seoul.

The sharp increase in losses was due to stricter reporting standards on loan-loss provisions, the discount sale of bad loans to a state bail-out agency and requirements that banks must value their bond and equity investments at market prices. Early retirement payments also contributed to losses as leading banks laid off 30 per cent of employees.

The actions were in response to financial reforms demanded by the International Monetary Fund as part of its $58bn rescue package for South Korea.

Losses were heaviest among Korea's biggest and oldest banks, most of which were nationalised last year.

Hanvit Bank, Korea's top bank created by a merger of Commercial Bank of Korea and Hanil Bank last month, reported the largest losses at Won3,360bn, against a loss of Won444.8bn in 1997.

Korea First Bank, which is being sold to a US financial consortium led by Newbridge, had 1998 losses of Won2,610bn against Won1,520bn. Seoulbank, expected to be sold to HSBC this month, reported an increase in losses to Won2,240bn from Won916.6bn.

Korea Exchange Bank, in which Germany's Commerzbank is a large shareholder, also had a rise in losses to Won843.5bn against Won68.4bn in 1997. Some banks specialising in lending to the retail sector or profitable smaller companies had better results. Shinhan Bank posted a 11 per cent increase in earnings to Won59bn.

Earnings for Hana Bank jumped 155 per cent to Won110.8bn, but its merger partner Boram Bank had a loss of Won391.1bn against a profit of Won10.2bn in 1997.

Profits at Kookmin Bank fell by 30 per cent to 73.4bn, while its merger partner Korea Long-Term Credit Bank posted a loss of Won256bn against a profit of Won41.7bn in 1997.

Housing & Commercial Bank, which specialises in mortgage lending, had a loss of Won291.3bn against a profit of Won106.3bn in 1997.

Young, gifted and back to the wall at Nomura Securities

Junichi Ujiie was welcomed as company president, but now he is struggling to fend off the critics, writes **Gillian Tett**

When Junichi Ujiie, 58, was unexpectedly appointed as president of Nomura Securities in 1997, many of the broker's younger staff cheered. Back then, Mr Ujiie seemed just the man to turn Nomura into a modern, internationally minded investment bank, given his relatively tender age and extensive experience in US and European markets.

Eighteen months later, though, the cheers have dissolved into bitter bickering. For as Nomura approaches the end of the 1998 fiscal year, it has become riven by internal disputes. The question mesmerising the workforce is whether Mr Ujiie can produce a credible strategy to reunite the company and secure his own position?

Although Nomura denies any split, one senior Japanese executive says: "There are many questions being asked about our company's future. It is not a happy time."

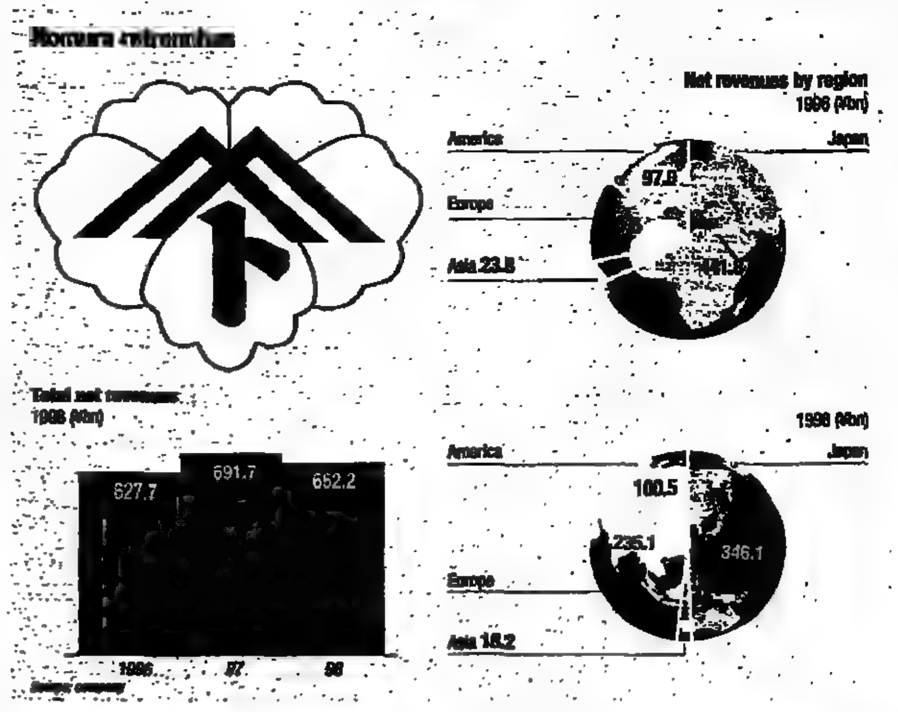
This bickering has been triggered by two specific factors. The first was the revelation last autumn that Nomura had incurred a consolidated net loss of Y205bn (US$1.80bn) in the first half of the 1998 fiscal year, largely due to a $600m loss on proprietary trades in Russian markets, and another $800m loss in Nomura's commercial mortgage-backed securities business in the US.

Nomura insists this loss will not spiral further: though some small additional losses from the US operations were revealed in late 1998, this largely stemmed from restructuring.

Many analysts privately express doubts. In the meantime, the losses are generating controversy within the company because of the approach of the fiscal year end on March 31. For unless Nomura takes rapid action to offset the losses in overseas markets, the year-end results are likely to show that the company's solvency ratio – the key measure of a broker's strength – has fallen sharply in recent months. Paul Heaton of Deutsche Bank, for example, calculates that it could have dropped to 200 per cent, down from the 500 per cent level that it used to report five years ago.

Nomura's equity base was $13.5bn at the end of March 1998, and the company is still sitting on massive assets which it could sell to raise cash. But the result is a bitter blow to Nomura's pride. And it is triggering bitter recriminations within the company about who was responsible for the debacle. "What everyone wants to see is a clear strategy now," says one shareholder.

These recriminations have, in turn, left Mr Ujiie vulnerable, not least because Nomura has always been marked by bitter internal feuds. Some domestic factions in the company, for example, are angrily blaming the losses on Mr Ujiie, who ran the US operations during the last decade. Some of the so-called Nomura "old guard", who were ousted in 1997 to make way for Mr Ujiie, are now trying to reassert their control. Meanwhile, some of the younger generation of Ujiie-supporters are insisting the events show the company needs to take a radically different tack.



Mr Ujiie has attempted to fight back and some strategic shifts are under way. Since last October, for example, the company has been implementing more central control over its global bond, equity, investment banking and risk management systems. It is also pulling out from most "high risk" overseas businesses.

Nomura is seeking to cut overseas costs by 20 per cent over the next two years, reduce its domestic workforce from 13,000 to 11,000, and in the run up to the fiscal year end, considering selling some of its assets.

Takashi Tsutsui, head of global equity, says the group is trying to focus its operations more closely. "In Japan and Asia we will be a global bank. But elsewhere we will be a niche player, particularly serving Japanese institutions."

Mr Tsutsui insists the company has no plans to "dogmatically centralise". Mr Ujiie's next moves will be closely watched.

Manulife joins with Daihyaku

By Naoko Nakamae in Tokyo

Manulife Financial, one of Canada's largest insurance companies, and troubled Japanese life assurer, Daihyaku Mutual, yesterday announced plans to set up a joint insurance company in Japan. The new company, to be called Manulife Century Life, is scheduled to start operations on April 1.

The new company will be capitalised at Y80bn ($703m) with Daihyaku and Manulife putting up Y40bn each. Manulife will control the new company, with 75 per cent of the voting rights.

The two companies said they planned to merge Daihyaku and Manulife Century in the future. This will be possible when Daihyaku's status is changed from a mutual company to a holding company, a move awaiting new legislation for the sector in Japan, they said.

"It's definitely part of our expectations and the Financial Supervisory Agency has been insistent on this point," said David Horman, senior vice-president in charge of Asian operations at Manulife. But both companies stressed that the merger would be conditional on the state of Daihyaku's revenue base and earnings capability at the time.

As part of yesterday's deal, Manulife will also inject more than Y80bn into Daihyaku's capital base. "It will improve our present standing," said Daihyaku president Shinjiro Kawasaki, who added that he hoped it would also heighten its creditworthiness, competitiveness and earnings power.

Daihyaku's solvency margin – a key indicator of financial health – of 294.6 per cent at the end of March 1998, was one of the worst in the sector. In fiscal 1998 its premium income dropped more than 10 per cent and its total assets fell almost 17 per cent. The company also suffers from a negative cashflow problem.

Both companies were advised by western investment banks, with Manulife retaining JP Morgan and Daihyaku retaining Goldman Sachs.

China delays deal with Volvo Truck

By James Kynge in Beijing

China has delayed approval for a $480m truck joint venture between Volvo Truck, the Swedish manufacturer, and a local partner because of concerns about overcapacity in the Chinese heavy truck market, officials said yesterday.

The project is the latest in a series of foreign ventures to be affected by widespread over-supply. Last month it emerged that foreign petrochemical joint ventures worth more than $8bn would be postponed. This week authorities announced that foreign aircraft manufacturers should postpone aircraft deliveries for two years from 2000.

The planned Volvo Truck joint venture in the eastern province of Shandong was expected to receive approval by the end of last year. But China National Heavy Duty Truck Corp, the joint venture partner, said the approval had been stalled by Beijing's concerns about domestic market conditions.

The factory, which was envisaged to have an eventual production capacity of 20,000 trucks a year, was expected to become one of China's top manufacturers. If approval comes through in April, the 50-50 joint venture could start producing in the autumn, the company said.

The plight of China Truck, the joint venture partner, was a decisive factor in the delay. China Truck, which is state-owned, is producing about one third of its annual capacity. Its debt of Rmb10.8bn ($1.3bn) amounts to about 80 per cent of assets and annual debt service payments of about Rmb700m have eroded much of its profit.

TELECOMMUNICATIONS LONDON MEETING IS A SIGN OF NEW INDUSTRY ALLIANCES

AT&T to discuss wireless link with BT

By Richard Waters in New Orleans

Senior executives of AT&T and British Telecommunications are due to meet next week to discuss ways of jointly extended their international wireless businesses, according to an executive at the American carrier.

Dan Hesse, chief executive of AT&T Wireless Services, added that the US company aimed to become a global force in the wireless industry within the next five years, either by making investments in companies overseas or through a network of looser operating agreements.

The meeting in London next week is the latest sign of how quickly the geographically fragmented wireless industry is coalescing into new international groupings. Vodafone's successful $62bn offer for AirTouch last month, uniting the biggest wireless carriers in the US and UK, has added extra urgency to the deliberations of others, including AT&T and BT.

The British and American companies did not include their wireless businesses in the global alliance they forged last year. However, their joint venture in traditional services should make the two natural partners in wireless as they try to develop global reach, said Mr Hesse.

The international initiative, however, is likely to take second place in the short term to AT&T's efforts to create one of the first national wireless brands in the US. While AirTouch is confined to the western states and relies on a partnership with Bell Atlantic for national reach, other national networks are being created either by mergers or by new investment.

"My main focus is to be the wireless supercarrier in the US," said Mr Hesse. "Later, though, we will have to develop a dominant position globally, perhaps five years down the line."

That could take the form of equity investments in overseas carriers, close technology and marketing pacts or looser alliances. However, the different technical standards in use in Europe and the US, and the efforts to combine them in a new, so called "Third Generation" standard, means that any international alliances are likely to depend on close technological integration.

According to Mr Hesse, both AT&T, which uses a wireless standard called TDMA, and BT, which uses GSM, have been working separately on a future standard that would combine both. However, he added that a technical agreement to co-ordinate the development of their networks would insure that they could plug effortlessly into each other in the future.

Record profit for Barrick as CEO quits

By Edward Alden and Scott Morrison in Toronto

Barrick Gold, North America's second largest gold producer, reported record profits for 1998 yesterday, but was shaken by the unexpected resignation of its chief executive and a failed bid to acquire Argentina Gold.

Barrick shares dropped C$1.30 to C$28.80 in early trading despite reporting a 15 per cent increase in net earnings and cashflow for 1998, as well as fourth-quarter results in line with analysts' expectations.

Barrick said yesterday it had abandoned its C$160m bid for Argentina Gold, a junior mining group that has a promising South American deposit. Barrick failed to get the needed 50 per cent of shareholders to accept its C$5 per share offer after some Argentina shareholders mounted vigorous opposition to the bid.

Barrick had coveted Argentina Gold's Veladero property, a sizeable high-grade resource of gold and silver just 6km from Barrick's Pascua project.

Pascua, which will be in full production by 2002, has proven and probable reserves of 14m ounces of gold and 440m ounces of silver.

In addition, Paul Melnuk, who had been Barrick's chief executive for less than a year, offered his resignation late on Monday, citing personal reasons. Peter Munk, chairman, acknowledged yesterday he was surprised by the decision, but said: "It was done for personal reasons and it's the kind of explanation I for one must respect."

Mr Munk indicated the announcement of a replacement would be made in the next several weeks.

Barrick's strong results came despite the lowest gold prices in two decades. Fourth quarter net income rose to US$83m, or 21 cents per share, from US$75m, or 20 cents per share, in the fourth quarter of 1997.

The performance was driven by sharply lower cash operating costs and the continued success of the company's hedging programme. Cash operating costs in 1998 dropped from $182 to $160 an ounce the previous year, and Barrick is projecting a further decline to $125 an ounce next year, which would be the lowest ever recorded by a major gold company.

Operating costs have been brought down by the opening of the low-cost Pierina mine in Peru, productivity improvements and increases in silver production.

Barrick's forward-selling of gold allowed the company to realise an average $400 an ounce for gold in 1998, $106 above the spot price.

While the programme is widely acknowledged as the industry's most successful, critics say the growing use of hedging in the industry has contributed to keeping world gold prices low. This has hurt the shares of all major producers, including Barrick, whose share price has languished despite the company's strong earnings.

Amazon.com logic confounds critics

Internet book retailer defends system for recommending titles, writes **Roger Taylor**

Called to book: Jeff Bezos of Amazon.com Ashley Ashwood

Amazon.com, the leading internet book retailer, is having to resort to some fancy logic to rebut criticism of its practice of taking money for featuring books on its recommended lists.

There is nothing on Amazon.com to indicate that some of the books featured are there, in part, because the publisher has paid money.

Amazon insists that this in no way undermines the integrity of the recommendations. It points out that it has an editorial board to check that every featured book meets a required standard. Those that fail do not appear, regardless of the money on offer.

Amazon even argues that the practice is better than the traditional advertising approach of other media. "Newspapers are perfectly happy to accept ads to promote lousy books. We stand behind all our recommendations," it says.

The fact that it may have received a cheque for as much as $10,000 from the publishers is neither here nor there, the company maintains. The cheque merely gives the publisher certain guarantees about the way the book will be promoted if it is selected.

Its defence was prompted by an article in the New York Times detailing some of Amazon's less well-known business practices. The criticism raises an issue that many other companies operating on the internet have to face – where the line falls between advertising and editorial. It is a line that is rarely clear in a medium where companies "sponsor" pages of editorial material.

To take one example, if you search under the word "car" on the Excite internet search engine, you will still get the traditional list of apparently random internet sites that happen to contain the word car – including texts in French and Polish.

But the user is first directed to a helpful list of topics, such as buying a car online. These links are presented in the same style as the rest of the search results. But they are, not surprisingly, advertising links that take you through to the services offered by a particular company.

Excite points out that this service is of enormous value to its users who do not want to have to trawl through reams of irrelevant material. Certainly the efforts of internet companies to bring some order to the mass of information on the net is welcome.

Customers might, however, have hoped that a company offering a guide to the net might at least have produced a list of some of the more popular online car sellers rather than simply pointing to its sponsor.

Excite is not breaking any regulations. But some claim Amazon.com's actions come dangerously close. The Federal Trade Commission, which oversees advertising, is reviewing advertising and marketing through electronic media and is planning a workshop in the spring to allow the industry and its regulators to discuss the best way forward.

This will have to take into account the need to meet the spirit of current regulations for other media. These require that advertisements be clearly identifiable as such and that, if a publication endorses a product, it should reveal any material connection is has with the manufacturer of that product.

Amazon.com argues that its "co-operative" promotions system is not a form of advertising, since Amazon.com makes the final decision as to whether or not a book gets promoted.

The company concedes it might consider giving customers more information if they are unhappy with arrangements. Although it says it is happy to talk about its policy, it refuses to reveal specifics such as which books are part of co-operative marketing and which have been chosen by Amazon.com's editors.

For now, the internet appears to enjoy a remarkable level of public trust. Research by The Pew Center, a media think-tank, found that net users did not mind if a review of a play included a link to a company selling tickets.

As the medium becomes increasingly commercial, it is in danger of undermining that trust. Practices such as Amazon.com's are likely to increase calls for regulation and raise questions about whether internet companies should be left to make judgments about the right balance between the interests of customers and of commercial sponsors.

Banco do Brasil profits presage decline

By John Barham in São Paulo

The excellent 1998 results announced by Banco do Brasil, Brazil's biggest bank, have been undermined by analysts' fears that they foreshadow a decline in performance this year as the country sinks into a deep recession made worse by last month's forced devaluation of the real.

Banco do Brasil, majority-owned by the federal government, said its net income in 1998 rose 52 per cent to R$869.9m (then worth $718.9m), while assets increased 19 per cent to R$129.56bn.

Robert Lacoursiere, analyst at Bear Stearns, the New York investment bank, said: "It is not a good sign that earnings were up more than expected. In fact it is a signal of more difficult times ahead." He said bank profits were "much better than forecast because interest rates were higher than expected in the fourth quarter. You will see the problem [caused by] higher interest rates and slowing growth later in provisioning [more bad loans]."

Benchmark interest rates stand at 39 per cent a year and private sector economists say the economy could shrink by up to 7 per cent this year. This deteriorating environment could make it harder for Andrea Calabi, Banco do Brasil's new president, to improve efficiency.

An immediate privatisation has been ruled out but economists say an announcement that Banco do Brasil will be sold would bolster international confidence in the government's efforts to cut its budget deficit.

Banco do Brasil is twice the size of the largest private sector bank, Bradesco, but cannot match it in terms of asset quality or efficiency.

Heavy losses in 1996 drained Banco do Brasil's equity base and it required a R$8.3bn equity injection to meet capital adequacy guidelines. The capital came mainly from the bank's pension fund. Performance improved and 1997 profits were R$574m.

Although Banco do Brasil cut its personnel costs by 10 per cent last year, to R$5.7bn, administrative costs rose by nearly 20 per cent, to R$386.9m. Like most Brazilian banks, it lends relatively little and holds most of its assets in high-yield government securities.

In the second half of 1998, the bank booked loans of R$40.27bn, less than its deposits and the small fraction of its total assets.

Even though lending has remained flat since 1994, last year the bank had to increase provisions for bad loans to R$12.1m, or 23 per cent of lending and unspecified "other credits". In 1997 this ratio was 13.4 per cent.

NEWS DIGEST

BANANAS

Hurricane Mitch sweeps Chiquita into the red

Hurricane Mitch, which swept across parts of Central America and the Caribbean last October, sent Chiquita Brands, the US fruit producer and distributor, into the red in 1998. Chiquita, which is best-known for its banana business and was at the centre of the recent trade dispute between the European Union and the US, incurred a $101.6m loss in the final quarter of 1998, leaving it with an $18.4m deficit for the year. In 1997, the company broke even, with a small $300,000 profit. Sales last year were $2.72bn, up from $2.43bn.

Mitch caused more than $850m of damage in Honduras alone. Chiquita said Mitch cost it $73m, net of insurance, as it had to write down assets as a result of the flooding. But the company said there was some improvement in underlying operating results once these costs were stripped out, largely thanks to better farm productivity, lower transport costs and higher banana volumes worldwide. These gains more than offset the fall in banana prices. Yesterday's losses were largely in line with forecasts and Chiquita shares were just $1/16 lower, at $9 1/16 in early trading. **Nikki Tait, Chicago**

CONSUMER PRODUCTS

Rubbermaid profits fall

Restructuring charges and merger costs pushed down profits in the final three months of 1998 at Rubbermaid, the Ohio-based consumer products group which is planning to sell itself to the low-profile but acquisitive Newell group for about $5bn.

The company said it made $3.8m in the fourth quarter, after $26.9m of charges related to reorganisation of its North American and European operations, and a further $2.4m charge stemming from costs involved in the Newell merger.

Part of the restructuring related to efforts to centralise buying and improve manufacturing processes. Rubbermaid said that savings helped offset price pressures and unfavourable exchange rates, and boosted underlying earnings. Ahead of the charges, earnings per share were slightly up at 22 cents, against 21 cents previously.

The commercial and home products businesses saw "strong profitability improvements", with gains in Europe being "particularly noteworthy". However, the traditional toys division saw "less-than-satisfactory" sales – a result blamed on changing buying patterns and some de-stocking by retailers.

The results are likely to be the last reported separately by Rubbermaid: the merger will be voted on by shareholders on March 11. **Nikki Tait**

NS launches largest internet stock issuance

By John Labate in New York

Network Solutions, the exclusive registrar of internet domain names in the US, yesterday launched the largest stock issuance ever by an internet company, with a secondary stock offering valued at nearly $780m.

The Virginia-based company issued 4.58m shares of class A common stock at $170 each.

The size of the offering was considered massive for the internet sector, where despite a rash of initial public offerings in the last 18 months, the value of most deals has typically been less than $100m.

Few internet companies have so far raised extra funds with a secondary offering.

The newly issued stock had to compete with a morning sell-off of internet shares as well as news of the release on Monday of recommendations by a government-appointed panel.

The draft guidelines, which are subject to public review through to early March, are the work of the Internet Corporation for Assigned Names and Numbers.

They represent the first step in the process of opening NS's market to competition in forthcoming years.

The guidelines could lead to an end to the monopoly held by the company in the assignment of domain names such as ".com", ".net", and ".org" for internet websites.

In 1992, long before the explosive consumer-led growth of the internet, NS won exclusive rights from the US Department of Commerce to assign domain names.

The company charges $70 for a two-year assignment and thus far it has registered more than 3m accounts.

Analysts expressed little concern about the potential opening of competition in its market, given NS's strong early lead.

"We estimate the market for domain names could reach at least 100m in the next several years," said James Pettit, analyst at Hambrecht & Quist, one of the lead managers of yesterday's stock deal with J.P. Morgan.

NS shares fell $17, or 9.8 per cent, to $157¼ in early trading.

MUTUAL FUNDS US GROUP SEEKS FURTHER ACQUISITIONS IN SOUTHERN EUROPE

MSDW looks to expand into Italy

By Tom Burns in Madrid and Tracy Corrigan in New York

Morgan Stanley Dean Witter, the US financial services group, is eyeing Italy as part of a strategy to establish a local presence in the fast growing mutual fund market of southern Europe.

The move follows MSDW's purchase yesterday of AB Asesores, Spain's biggest independent financial services group with $4.3bn under management as of the end of last year.

That deal is MSDW's first acquisition since the merger of Morgan Stanley and Dean Witter two years ago, and the group's first purchase outside the US. Morgan Stanley's negotiations to buy SG Warburg, the UK investment bank, broke down in 1994.

The Spanish acquisition was termed a "value proposition" by Richard DeMartini, chief executive of MSDW's international private client unit. Last December, Mr DeMartini was put in charge of building MSDW's overseas private client business, an area which has been targeted as the group's most important strategic initiative. Morgan Stanley Dean Witter is one of the top three US retail brokerages.

Mr DeMartini said there was "keen interest" in Italy which, like Spain, is showing strong growth in mutual funds and growing demand from local individuals and institutions for international equities. "We are talking about the fastest growing mutual fund markets in the world," said Sir David Walker, executive chairman of MSDW in Europe.

Mr DeMartini said it was very likely that following the acquisition of Asesores the group will enter the Portuguese market, offering mutual funds and advice to retail investors.

MSDW is also stepping up its efforts to penetrate the Japanese retail market. US rivals such as Merrill Lynch, through the Yamaichi Securities brokerage network it acquired, and Citigroup's Salomon Smith Barney, which has linked with Nikko, have already entered Japan, though to date revenues from Merrill's venture have proved disappointing.

"We will have a presence in retail asset management in Japan," said Mr DeMartini. The group expected to begin opening a small branch network in Japan this year but was also "actively pursuing" options for distributing products to retail investors.

The value of the Asesores transaction was not disclosed but is believed to be between $300m and $400m.

Mr DeMartini said the price would comfortably live up to MSDW's earnings targets in terms of return of equity.

Asesores, which has 44 offices and about 44,000 high net-worth clients, gives MSDW a strong foothold in Spain where managed mutual funds totalled about $245bn at the end of last year, up from $125bn at the end of 1997. It also has an institutional brokerage and corporate finance business.

Grolsch targets mature markets

By Gordon Cramb in Amsterdam

Grolsch, the Dutch brewer, is to seek licensing agreements for the production of its brand in other western countries as part of an effort to revive flagging profitability.

At the same time, it is retreating further from a foray into developing markets. Export sales to China and Brazil will end and a sales drive elsewhere in Asia and Latin America is to be scaled down. That follows the disposal a year ago of a holding in Poland.

Jacques Troch, chairman, said yesterday that, with a premium brand, the company wanted to be "where people knew beer".

Grolsch aimed to grow further in the UK and US, its two main foreign markets, as well as improving its position in continental Europe, Canada, Australia and New Zealand.

Mr Troch was speaking as the group announced flat net profits from operations at Fl 50.3m (€22.9m, $25.67m) for last year, on a 4.8 per cent decline in sales to Fl 543.8m. Mr Troch blamed that dip, in large measure, on a collapse in the Russian market, which had accounted for 15 per cent of sales outside the Netherlands.

Although a small Moscow office would remain, Grolsch would, in future, focus on mature beer markets where purchasing power was high and the premium segment was growing. Local production under licence, as carried out for the company by Bass in the UK, would be extended to selected other countries.

These are expected to include the countries of Australasia but not the US, where only imports command a higher price. The group will also consider acquisitions and begin exporting its subsidiary line of specialty beers which, at home, have grown to account for 8 per cent of all sales.

Soros in Golden Land sale

By Ted Bardacke in Bangkok

Foreign investors led by Hong Kong's New World Development, the Soros Quantum Fund and Morgan Stanley will today announce the acquisition of Golden Land, the Thai property developer.

The purchase, for $76m in new capital, involves a deal with leading Thai banks to reduce the company's $200m debt burden by more than half.

It represents the first foreign takeover of a listed Thai property company and is part of a growing number of acquisitions of distressed companies in Thailand involving a tripartite negotiation between buyers, sellers and creditor banks.

New World Development, which already owned just over 20 per cent of Golden Land, will become the largest shareholder, with the Soros Quantum Fund the second largest investor in the deal, bankers said.

Thailand's Srivikorn family will see its 24 per cent stake diluted to 5 per cent and then even less when another planned equity issue is completed later this year.

Financier George Soros, through the Soros Quantum Fund, is the second largest investor in the Golden Land deal Jason Orton

Matriarch Sasima Srivikorn will remain chairwoman of the company and was instrumental in convincing Thai banks to carry out the debt restructuring deal that was needed before new equity could be found.

Liakat Dhanji, with nearly a decade of experience in reviving distressed property assets in Asia, will become chief executive.

The debt restructuring will lower Golden Land's liabilities from Bt7.3bn to about Bt3.2bn ($87m), which includes loans that were mostly non-performing.

Some of the reduction will come through shrinking its liability by Thai banks, led by Bangkok Bank and Siam Commercial, while Golden Land will transfer some land assets to the banks to make up for the rest.

Details of the debt restructuring deal remain confidential at the request of the banks who fear other debtors will want similar treatment.

The participation of Soros raises concerns that some of the new investors see the capital injection as a trading opportunity following the huge run-up of shares in Nakornthai Strip Mill.

Soros bought some of the company's high-yield bonds issued in the US as part of a debt restructuring deal last year. Soros then sold the bonds within one month of purchasing and the bonds are now in default.

Chris Harborne of MCL Research, which advised on the deal, said he believed the new investors had no intention of "flipping" the new shares, saying much of the new equity was destined for the acquisition of more distressed property projects.

STEEL GROUP HIT BY DROP IN PRICES

NKK warns of further fall in profit

By Alexandra Harney in Tokyo

NKK, Japan's number two steel company, warned yesterday it was unlikely to meet its profits forecast this year because of an unexpected drop in prices.

Yoichi Shimogaichi, NKK *president*, did not specify how far earnings had deteriorated below expectations. However, the company said an official revision was likely by March.

The warning comes less than a week after Nippon Steel, the industry leader, said it did not expect a profit this year. It marks the third time NKK has revised its profits forecast since September.

In November, NKK, part of the troubled Fuyo industrial group, said it expected consolidated net losses of Y109bn ($958m) on turnover of Y1,835bn. This compares with Y14.3bn in after-tax earnings on Y1,934.4bn in sales last year.

NKK and other steel makers have been hit by the collapse in demand from the car and construction sectors, and the sharp decline in exports after US steelmakers moved to file anti-dumping charges last year.

NKK's financial position has deteriorated sharply in recent months after it was forced to absorb the liabilities of Toa Steel, its electric furnace subsidiary that failed last September.

Concerns about the company's inability to meet its scheduled bond redemptions – including about Y153bn in the fiscal year ending in March, according to Goldman Sachs – have driven the company's share price down from Y160 a year ago to Y65 yesterday.

Analysts said NKK's biggest problem was that it lacked the resources to fund the restructuring needed to survive without additional financial support.

The company has been struggling to lower costs and streamline production at Keihin Works, its loss-making blast furnace plant, but has avoided closing down operations because of the heavy costs and thousands of job losses involved.

Last September, Moody's, the US credit rating agency, lowered NKK's long-term debt rating to Baa3, just above junk status, and put it under review for a further downgrade. The company's main lender is Fuji Bank, but it is expected to request additional funds from the Japan Development Bank, a government backed institution.

Because of its size and importance in the steel sector, NKK could trigger a much-needed consolidation among the big five integrated steel makers, said analysts and government officials. Steel demand has plummeted to a 30-year low, as carmakers and construction companies scale back production amid the domestic recession.

NEWS DIGEST

TELEVISION MANUFACTURING

Sichuan Changhong to use rights funds to diversify

Sichuan Changhong, the colour television manufacturer based in western China, said it will diversify into new business areas, including telecommunications, using funds from a rights issue. The company's shareholders approved a plan to invest in projects to manufacture digital video networks, mobile telephones and CD-ROMs, Changhong said.

The rights issue is intended to raise RMB4.5-6.4bn ($544m-$774m) on the domestic stock markets. Changhong is listed on Shanghai's A share market, the exchange reserved for domestic investors. The Shanghai Securities News, an official newspaper, said shareholders also approved a 3-for-10 rights issue. The issue will be priced at RMB9.9-13.9 depending on market conditions and will be made within the coming year.

Changhong reported net profits of RMB634.5m in the first half of 1998, down more than 30 per cent on the same period in 1997 due to slowing sales of colour television sets. **James Harding, Shanghai**

ELECTRICITY

PowerGen buys LG stake

PowerGen, the UK electricity company, yesterday acquired a 49.9 per cent stake in LG Energy for $60m and agreed to provide $150m in loans to the South Korean power company. The capital infusion will help LG Energy, a unit of the LG Group, to complete the construction of a 500,000 kilowatt liquified natural gas power plant by 2000. **John Burton, Seoul**

CORRECTION

FT500

First Union Corp of North Carolina was omitted from the table of top global banks and top US banks in the *FT500* (Thursday, January 28). In global terms it ranked tenth at December 30, 1998, with a market capitalisation of $60.683bn. Within the US it was the seventh biggest.

The following Polish companies should also have been included in the top eastern European companies list (ranking in brackets). BSK – Bank Slaski (31), PBK – Pomorski Bank Kredytowy (32), Bank Rozwoju Eksport (36), Zywiec (37), BOS – Bank Ochrony Srodowiska (65), Sweica Celulosa, (69) Softbank (70). In the Nordic companies by market capitalisation table the combined MeritaNordbanken should have been ranked fifth with a market capitalisation of $11.424bn.

NOTIFICATION TO BONDHOLDERS

Siemens Financieringsmaatschappij N.V.

Den Haag, The Netherlands

Parallel Bond
DM 750,000,000
5.5 % Guaranteed Bonds due 2007
unconditionally and irrevocably guaranteed by
Siemens AG
(WKN 190 225, Common Code 7387539,
ISIN DE0001902252)

Parallel Bond
FF 2,500,000,000
5.5 % Guaranteed Bonds due 2007
unconditionally and irrevocably guaranteed by
Siemens AG
(Sicovam code number 10929, Common Code 7385633,
ISIN XS0073856337)

Parallel Bond
NLG 500,000,000
5.5 % Guaranteed Bonds due 2007
unconditionally and irrevocably guaranteed by
Siemens AG
(Common Code 7384793, ISIN XS0073847930)

(the "Bonds")

Pursuant to §§ 3 and 4 of the German Law on the Redenomination of Debt Securities into Euros (*Gesetz zur Umstellung von Schuldverschreibungen auf Euro*) dated as of June 9, 1998 (BGBl. I p. 1242, 1250) and Condition 4 of the Terms and Conditions of the Bonds, the Issuer will redenominate the aggregate principal amount of the Bonds into euros with effect from March 12, 1999. With effect from the same date, the Issuer will consolidate the Bonds pursuant to Condition 5 of the Terms and Conditions of the Bonds.

With respect to the above, the following is declared and published pursuant to § 6 of the German Law on the Redenomination of Debt Securities into Euros and Condition 14 of the Terms and Conditions of the Bonds:

1. The conversion into euros shall occur by using the conversion rates of DM 1.95583 per euro, FF 6.55957 per euro and NLG 2.20371 per euro, respectively, established by the Council of the European Union pursuant to Article 109 l subsection 4 of the EC-Treaty (Article 123 subsection 4 sentence 1 of the Amsterdam Treaty version of October 2, 1997) and, in each case, rounding the resultant figure to the nearest cent (with euro 0.005 being rounded upwards). The Bonds shall be replaced by bonds denominated in euros with a denomination of one cent.
2. The Redenomination and Consolidation Agent appointed in connection with the Bonds (Citibank, N.A. London) has consented to the redenomination and consolidation pursuant to the terms of this notice.
3. The transferable principal amount shall be euro 0.01 or a multiple thereof.
4. The aggregate principal amount of the Bonds upon consolidation shall be euro 991,481,562.04. In exchange for the Permanent Global Bonds representing the Bonds, the Issuer shall issue and deliver to the depositaries euro-denominated replacement Global Bonds.
5. The ISIN number for the Bonds upon consolidation shall be XS0094758181.
6. To the extent the Bonds will be held in Cedelbank ("Cedelbank") or Morgan Guaranty Trust Company of New York, Brussels Office, as operator of the Euroclear System ("Euroclear"), the common depositary shall be Citibank, N.A. London; to the extent the Bonds will be held in Deutsche Börse Clearing AG ("DBC"), the depositary shall be DBC.
7. Upon consolidation, the Bonds will be listed on the stock exchanges in Frankfurt am Main, Paris and Luxembourg.
8. Upon consolidation, the Bonds shall be cleared and settled on an interchangeable basis through Cedelbank, Euroclear and DBC; the Bonds shall also be accepted in SICOVAM.
9. If it is necessary to compute interest for a period of less than a full year, interest shall be calculated on the basis of the actual number of days in the calculation period divided by the actual number of days (365 or 366) in the respective annual interest period.
10. Payments on the Bonds shall be made on days (other than a Saturday or a Sunday) on which the Trans-European Real-time Gross Settlement Transfer System ("TARGET") is open.
11. The Terms and Conditions of the Bonds shall be amended and supplemented pursuant to § 5 of the German Law on the Redenomination of Debt Securities into Euros, Condition 12 of the Terms and Conditions of the Bonds and in accordance with items 1, 3, 4, 6, 7, 8, 9 and 10 above with effect from March 12, 1999 as follows:

CURRENT VERSION	AMENDED OR SUPPLEMENTED VERSION
Any alternatives set forth below in square brackets refer first to the Terms and Conditions of the DM-denominated Bonds, second to the Terms and Conditions of the FF-denominated Bonds, and third to the Terms and Conditions of the NLG-denominated Bonds.	
1. (a) Principal Amount and Denomination	**1. (a) Principal Amount and Denomination**
The issue by Siemens Financieringsmaatschappij N.V. (the "Issuer") in the aggregate principal amount of [DM 750,000,000 (Deutsche Mark seven hundred and fifty million)] [FF 2,500,000,000 (French Franc two billion five hundred million)] [NLG 500,000,000 (Dutch Guilders five hundred million)] is divided into [75,000] [25,000] [50,000] bonds in the denomination of [DM 10,000] [FF 100,000] [NLG 10,000] which are payable to bearer and rank pari passu among themselves (the "Bonds"). The Issuer may and in certain circumstances shall redenominate the Bonds in euros subject to Condition 4.	The issue by Siemens Financieringsmaatschappij N.V. (the "Issuer") in the aggregate principal amount of euro 991,481,562.04 (euro nine hundred ninety one million four hundred eighty one thousand five hundred sixty two and four cents) is divided into 99,148,156,204 bonds in the denomination of euro 0.01 which are payable to bearer and rank pari passu among themselves (the "Bonds"). The transferable principal amount shall be euro 0.01 or a multiple thereof.
1. (b) Form	**1. (b) Form**
The Bonds are initially represented by a temporary global Bond payable to bearer (the "Temporary Global Bond") without interest coupons. The Bonds represented by the Temporary Global Bond will be exchangeable for Bonds represented by a permanent global Bond payable to bearer (the "Permanent Global Bond") without interest coupons on or after the exchange date which is expected to be 22nd April 1997 upon certification as to non-U.S. beneficial ownership as more particularly set out in the Temporary Global Bond. Definitive Bonds and interest coupons will not be issued.	The Bonds are represented by two permanent global bonds payable to bearer without interest coupons. One of the two permanent global bonds (the "DBC Global Bond") will be kept in custody by Deutsche Börse Clearing AG, Frankfurt am Main ("DBC") until all obligations of the Issuer under the Bonds have been satisfied. The DBC Global Bond represents the Bonds kept in custody for financial institutions that are accountholders of DBC, including such Bonds which are held through any other clearing system which maintains an account with DBC. The other permanent global bond (the "Cedelbank/Euroclear Global Bond") will be deposited with Citibank, N.A. London, or any successor, as common depositary for Cedelbank ("Cedelbank") and Morgan Guaranty Trust Company of New York, Brussels Office, as operator of the Euroclear System ("Euroclear") until all obligations of the Issuer under the Bonds have been satisfied. The Cedelbank/Euroclear Global Bond represents the Bonds kept in custody for financial institutions that are participants in Cedelbank or Euroclear, respectively, including such Bonds which are held through any other clearing system which maintains an account with Cedelbank and/or Euroclear. Together, the Bonds represented by the DBC Global Bond and the Cedelbank/Euroclear Global Bond, respectively, will equal the aggregate principal amount of the Bonds outstanding at any time. The amount of Bonds represented by each of the DBC Global Bond and the Cedelbank/Euroclear Global Bond is evidenced by notations on the respective Global Bond which shall be made, in the case of the Cedelbank/Euroclear Global Bond, by or on behalf of Citibank, N.A. London in its capacity as common depositary for Cedelbank and Euroclear and, in the case of the DBC Global Bond, by or on behalf of DBC in its capacity as depositary for the DBC Global Bond. Any such notation shall only be made upon a respective instruction by or on behalf of the Fiscal Agent. Transfers of Bonds between DBC accountholders, Cedelbank participants, Euroclear participants, or participants of another clearing system or different other clearing systems *maintaining an account with either DBC, Cedelbank or Euroclear shall* be effected in accordance with the procedures established for these purposes by the relevant clearing system(s). Transfers of Bonds between DBC accountholders on the one hand and Cedelbank or Euroclear participants on the other hand and exchanges of Bonds represented by the DBC Global Bond for Bonds represented by the Cedelbank/Euroclear Global Bond and vice versa shall be noted on the respective Global Bonds as set forth above and shall be effected by an increase or a decrease in the aggregate amount of Bonds represented by the DBC Global Bond and a corresponding decrease or increase in the aggregate amount of Bonds represented by the Cedelbank/Euroclear Global Bond. Definitive Bonds and interest coupons shall not be issued.
1. (c) Signatures and Authentication	**1. (c) Signatures and Authentication**
The Temporary Global Bond and the Permanent Global Bond (each a "Global Bond") bear the signatures of authorised signatories of the Issuer and are authenticated by an authorised signatory of the Fiscal Agent.	The DBC Global Bond and the Cedelbank/Euroclear Global Bond (each a "Global Bond") shall each bear the signatures of authorised signatories of the Issuer and are authenticated by an authorised signatory of the Fiscal Agent.
3. (c) Interest Accrual Basis	**3. (c) Interest Accrual Basis**
If it is necessary to compute interest for a period of less than a full year, interest shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each.	If it is necessary to compute interest for a period of less than a full year, interest shall be calculated on the basis of the actual number of days in the calculation period divided by the actual number of days (365 or 366) in the respective annual interest period.
7. (e) Business Days	**7. (e) Business Days**
If the due date for payment of principal or interest in respect of any Bond is not a business day at the place of payment, the Bondholders shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or payment in respect of any delay. Subject to Conditions 4(b) and 5(c), for this purpose, "business day" means any day on which banks are open for business in [Frankfurt am Main] [Paris] [Amsterdam] and the relevant place of payment or, if payments in euros are then due and cannot be made on such day, the next following day on which payments in euros can be made in accordance with market practice for payments of debt obligations issued in the euromarkets which are payable in euros.	If the due date for payment of principal or interest in respect of any Bond is not a business day at the place of payment, the Bondholders shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or payment in respect of any delay. For this purpose, "business day" means any day (other than a Saturday or a Sunday) on which the Trans-European Real-time Gross Settlement Transfer System ("TARGET") is open.
14. Notices	**14. Notices**
All notices regarding the Bonds shall be published in [the Federal Gazette (*Bundesanzeiger*) and, so long as the Bonds are listed on the Frankfurt Stock Exchange (and the rules of such stock exchange so require) in a newspaper designated by such stock exchange for stock exchange notices (which is expected to be the *Börsen-Zeitung*), and in a leading daily newspaper published in the English language and of general circulation in London (which is expected to be the *Financial Times*)] [a leading daily newspaper published in the English language and of general circulation in London, (which is expected to be the *Financial Times*) and, so long as the Bonds are listed on the Paris Stock Exchange (and the rules of such stock exchange so require), in a leading daily newspaper in Paris (which is expected to be *la Tribune*)] [a leading daily newspaper published in the English language and of general circulation in London (which is expected to be the *Financial Times*) and, so long as the Bonds are listed on the Luxembourg Stock Exchange (and the rules of such stock exchange so require), in a leading newspaper in Luxembourg (which is expected to be the *Luxemburger Wort*)]. [Such notices shall become effective on the date of such publication or, if published more than once or on different dates, on the first date of any such publication.]	All notices regarding the Bonds shall be published in a leading daily newspaper published in the English language and of general circulation in London, (which is expected to be the *Financial Times*) and, so long as the Bonds are listed on the Frankfurt Stock Exchange (and the rules of such stock exchange so require) in a newspaper designated by such stock exchange for stock exchange notices (which is expected to be the *Börsen-Zeitung*) and, so long as the Bonds are listed on the Paris Stock Exchange (and the rules of such stock exchange so require) in a leading newspaper in Paris (which is expected to be *la Tribune*) and, so long as the Bonds are listed on the Luxembourg Stock Exchange (and the rules of such stock exchange so require) in a leading newspaper in Luxembourg (*which is expected to be the Luxemburger Wort*). Such notices shall become effective on the date of such publication or, if published more than once or on different dates, on the first date of any such publication.

Eine deutsche Übersetzung dieser Bekanntmachung erscheint am heutigen Tage im *Bundesanzeiger* und wird bei der Siemens AG (SFS/CFT), Wittelsbacherplatz 2, D-80333 München und bei den für die Anleihen bestellten Zahlstellen zur kostenlosen Ausgabe bereitgehalten.
A German language translation of this notification is published today in the German Federal Gazette (Bundesanzeiger) and is available free of charge at the offices of Siemens AG (SFS/CFT), Wittelsbacherplatz 2, D-80333 Munich and at the paying agents appointed in connection with the Bonds.

Dated 10 February 1999

Citibank, N.A.

NOTICE OF CHANGE OF AGENT

To Holders and any other parties connected to the Bond and Note issues shown below.

from
The Long-Term Credit Bank of Japan, Limited
(London Branch)

NOTICE IS HEREBY GIVEN that with effect from the 10th February, 1999 the Agency services of The Long-Term Credit Bank of Japan, Limited (London Branch), whether appointed as Fiscal Agent, Custodian, Replacement Agent, Paying Agent and/or Reference Agent, will be transferred to The Bank of Tokyo-Mitsubishi Limited (London Branch) who will assume all such agency duties for each of named issues which follows:-

Shin-Etsu Chemical Co., Ltd
USD500,000,000 3¾ per cent Notes due 2000 with Warrants

Ireland
USD100,000,000 Floating Rate Notes due 1997/2000

THE NEW AGENT
The Bank of Tokyo-Mitsubishi Limited (London Branch)
Custody Operation Department
12-15 Finsbury Circus
London EC2M 7BT
Tel: +44 (0)171 577 1591 Fax: +44 (0)171 577 1609

Issued by:
The Long-Term Credit Bank of Japan, Limited
(London Branch)
Dated 10th February, 1999

NKK warns of further fall in profits

Sichuan Changhong to use funds to diversify

PowerGen buys LG stake

TRANSPORT CHIEF CONFIDENT S&P WILL NOT DOWNGRADE THE GROUP AS PROVISION PUTS IT INTO THE RED

Third-quarter £75m loss for British Airways

By Michael Skapinker, Aerospace Correspondent

British Airways yesterday announced its first ever third-quarter pre-tax loss but said it had laid the foundations for a profitable future.

The £75m ($123m) loss compared with profits of £80m last time.

Robert Ayling, chief executive, who has been touring the City outlining BA's recovery strategy, said he would now concentrate on attracting business passengers and would avoid selling tickets to low-paying economy customers transferring from other flights.

BA's shares rose 7½p to 388½p.

The airline said it was confident it would persuade Standard & Poor's, the credit rating agency, not to downgrade its single-A long-term rating. S&P said yesterday it had put BA on credit watch "with negative implications" because of the increasingly competitive fares on European, Asian and transatlantic routes.

Derek Stevens, BA's chief financial officer, said the airline would be outlining its position to S&P in the next four weeks. "I am confident that we will persuade them that our current rating is right," he said.

Much of BA's loss – its first in any quarter since 1995 – resulted from a £117m charge on Japanese yen debts to finance aircraft acquisitions.

The provision was necessary because of the strengthening of the yen, but BA said this was an accounting charge with no effect on cash flow.

The yen-related financing arrangements do not begin to mature until 2007. Without the charge, BA would have shown a profit for the quarter of £42m. Turnover for the quarter to December was up 0.7 per cent to £2.1bn.

Mr Ayling said that while BA wanted to retain business and first class passengers who transferred to its flights from other airlines, it wanted economy customers only on direct services. This was because fares paid by economy passengers transferring from other flights were too low.

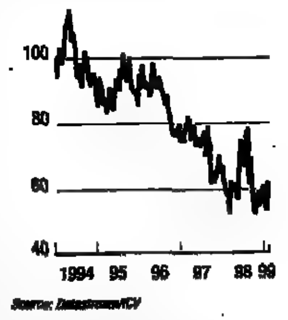
Mr Ayling said aircraft capacity would grow by no more than 2 per cent a year for the next three years, with BA selling fewer economy seats. He said he expected Asian economies to revive, reducing the amount of excess capacity on north Atlantic routes.

The success of BA's cost-cutting campaign, which had resulted in annual savings of £600m, meant the airline could concentrate on service standards.

COMMENT

Vaux

The sacking of both chief executive and finance director from Vaux, the UK pubs and hotel group, should leave a nasty taste in shareholders' mouths. After all, Martin Grant and Neil Gossage had voted against the management buy-out of Vaux's pubs and brewing assets, which was to be led by none other than the brother of Sir Paul Nicholson, the company's chairman. The two executives' alternative plan – understood to involve closing the two breweries, selling some land and negotiating beer supply agreements for the retained pubs – had received short shrift from the board. Without seeing the details of both proposals, it is hard to tell for certain whether shareholders stand to be short-changed by the board's decision. But conflicts of interest must be seen to have been well managed. It is vital that Vaux now publishes the details of both schemes and makes clear that it is genuinely willing to entertain any proposals from third parties. If the board refuses, investors should call an emergency meeting to change the directors.



British Airways

British Airways may have announced third-quarter losses, but its cost cutting strategy is bearing fruit. Stripping out fuel savings, BA's unit costs fell by 5¼ per cent in the quarter. They are now falling at almost twice the rate achieved by BA's European competitors, which are scrambling to catch up. But BA cannot continue cost-cutting for ever. The group has achieved three-quarters of the £1bn of savings identified when its efficiency programme began in 1996. Questions have been raised about service quality, the implication being that the group has cut too deep in some areas. Although BA has stoutly denied standards have fallen, it cannot afford to let such ideas take hold.

BA may benefit this year as the scrutiny shifts to its European rivals. The London business market went into its downturn ahead of continental markets, so, as continental Europe follows London down this year, BA's comparative merits should stand out more. Nonetheless, BA is wise to warn shareholders not to be too optimistic about an early recovery. Another economic shock could hit lucrative business traffic. This would put the brakes on any rebound in the shares.

Difficult conditions continue for BOC

By Virginia Marsh

BOC Group, the industrial gases business, provided a bleak picture of the state of traditional manufacturing sectors in the developed world yesterday as it cautioned that difficult trading conditions had continued in the first quarter.

It said volumes in its core gases business were liable to be flat this year partly because of difficulties in the steel industry in several countries, in the electronics industry and in the Japanese economy as a whole.

The news, accompanied by disappointing results, prompted a 49p drop in BOC's shares to 814p, a fall of almost 6 per cent. "BOC is hugely reflective of how difficult it is out there for manufacturing in some economies," said Lucas Hermann, at BT Alex Brown, the company's broker.

Pre-tax profits fell 9 per cent to £84.9m ($139m) in the three months to December 31 on sales down 21 per cent at £767m. Much of the decline in turnover was because of disposals.

Some analysts had expected profits of £100m and several cut forecasts for this year. Dresdner Kleinwort Benson reduced its pre-tax profits forecast from £435m to £380m ($247m).

BOC said it had been hit by problems in steel in Japan, the UK and the US – sales to the industry account for 11 per cent of turnover.

Abbot and ProSafe merger talks collapse

By Thorold Barker in London and Valeria Sköld in Oslo

Merger talks between Abbot, the UK oil services group, and ProSafe, a Norwegian rival, to create the world's largest platform drilling contractor collapsed yesterday because of a disagreement on price.

The two groups revealed plans for an all-paper "merger of equals" on January 5. It would have created a company worth £400m-£500m ($660m-$820m).

The proposed deal is believed to have foundered on concerns about the security of earnings from ProSafe's five accommodation rigs, which account for about 75 per cent of its profits.

Two of the rigs are understood to be lying idle in the North Sea. There are fears that the slowdown in drilling activity because of the low oil price will make it difficult to secure new contracts.

Alisdair Locke, chairman of Abbot, said the talks had been revealed prematurely because of leaks. After due diligence the companies had an "honest disagreement on price".

One analyst said: "Abbot thought there was a risk that expectations for next year would not be met if they went ahead on the original terms."

Shares in Abbot, which had fallen 29 per cent from their level before the talks were announced, rose 31p to 176p, valuing the company at £252m.

ProSafe shares, which rose 58 per cent in one day when the talks were revealed, fell NKr22.5 to NKr52, giving it a market capitalisation of NKr1.3bn ($170m).

Norwegian analysts, who had considered Abbot too generous in offering a merger of equals, were not surprised by the breakdown.

Mike Salter, Abbot chief operating officer, said the two groups were still pursuing a joint venture to give Abbot access to the Norwegian market for its drilling mud, used as a lubricant in oil wells.

He said the merger would have given Abbot a platform for diversification of its drilling activities into areas such as the Caspian and West Africa.

Both groups said their results for the year to December 31, 1998, would be in line with expectations. Analysts are expecting Abbot to make pre-tax profits of about £18m compared with NKr234m for ProSafe.

Internet stakes lure Reuters

By John Gapper

Reuters, the financial information company, has started making investments in internet start-ups in Europe similar to stakes already taken in Yahoo! and Infoseek, the US internet portals.

Peter Job, chief executive, said that rising internet share prices were making it harder to replicate its earlier Silicon Valley investments. These were undertaken as part of deals in which internet sites displayed Reuters' news services.

Reuters made profits of £26m in 1998 by selling stakes in high technology companies held in its "greenhouse fund".

Reuters said yesterday it had sold most of its initial 2.5 per cent stake in Yahoo! which would be worth about $770m today. It is thought to have left about 100,000 shares – worth about $16m.

"We have tended to move our sights towards Europe and have made a couple of investments this year," said Mr Job. He said the main point of such investments was to enable Reuters to develop a profitable internet strategy. "We do not aim to create shareholder value by having long-term investments. We are there to understand the operations. There is a Klondike rush for the internet, and not everyone will strike gold".

Yesterday it disclosed a 7 per cent fall in pre-tax profits to £580m for 1998 as a result of a drop in interest received from £80m to £2m following a £1.5bn repayment of surplus capital.

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Amvescap beats volatility

By Jane Martinson

Amvescap, the largest London-listed fund manager, brushed off market volatility to increase pre-tax profits by 30 per cent from £177m to £231m ($379m) last year.

The increase, in line with expectations, came as the group's funds under management rose $88bn to $275bn over the year in spite of a downturn in the third quarter following turmoil in the world's stock markets. The £700m acquisition of GT Global in May contributed $48.8bn of that increase, $26.2bn came from market appreciation while new business accounted for $4.6bn.

Bob McCullough, chief financial officer, said the extreme volatility of 1998 had encouraged the company in its increasingly global strategy.

The blot on the landscape continues to be the US institutional business bought with GT Global. This operation, formerly called Chancellor and based in New York, lost a net $3.1bn of business last year. Mr McCullough said the operation had stabilised but continued to lose business to index-tracking fund managers.

Who knows?

Revenues for the year to December 31 of £802m (£530m) were struck after an exceptional charge of £48.6m resulting from the acquisition. Underlying pre-tax profits of £231m were also hit by amortisation of goodwill of about £21.2m.

Pre-tax profits forecasts for this year range from £260m to £286m.

RESULTS

	Period	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Alumasc	6 mths to Dec 31	78.6	(81)	3.86♠	(4.28♠)	7	(7.5)	2.45	Apr 9	2.45	-	8.5
Amstrad	6 mths to Dec 31	45.5	(30.9)	4.06	(0.879L)	3.56	(1.14L)	0.3	Apr 7	0.2	-	0.5
Amvescap	Yr to Dec 31	802.2	(530.7)	161.5♠	(177.3)	15.7†	(22.7)	5	July 7	4.5	8	7
BOC	3 mths to Dec 31	766.5	(971.2)	84.9♠	(93.5♠)	11.29	(12.57)	-	-	-	-	31
British Airways	9 mths to Dec 31	6,866	(6,616)	310♥	(610♥)	26.6	(37.8)	-	-	-	-	16.6
BWD Secs	Yr to Nov 30	22.3	(18.3)	5.43	(3.31)	19.2♦	(11.1)	8.5	Apr 9	5.3	12	7.5
Capital Shopping	Yr to Dec 31	171	(150.6)	87.1	(77.4)	15.5	(15.3)	5.675	May 5	5.125	10.2	9.25
Enviromed	Yr to Sept 30	5.62	(5.95)	0.832♠	(1.84L♥)	1.3	(7.7L)	nil	-	nil	nil	nil
Reuters	Yr to Dec 31	3,032	(2,882)	580♥	(626)	26.7	(24)	11	Apr 26	9.9	14.4	13
Ryanair §	9 mths to Dec 31	182.9	(141.3)	34.5	(32♠)	18.09†	(15.81)	-	-	-	-	-
Seacon	Yr to Sept 30	17.7	(18.8)	0.247	(0.378♥)	0.83	(1.26)	0.75	Apr 6	1.25	0.75	1.25
SmithKline Beecham	Yr to Dec 31	8,082	(7,795)	902♠	(1,816)	11	(19.1)	3.66	Apr 15	3.33	10.938★	9.945
Stoves	6 mths to Nov 30	49.1	(42.6)	0.404♥	(2.83)	1.2	(7.8)	2.2	Apr 7	2.2	-	6.4
Westminster Health	6 mths to Nov 30 ★	75.9	(70.1)	5.63♠	(8.39)	6.2†	(9.5)	2.85	Apr 7	2.85	-	7

Investment Trusts	Period	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Edinburgh UK Track	Yr to Dec 31	238.27	(214.12)	2.78	(2.86)	5.47	(5.8)	3.1	Mar 31	3.1	5.3	5.3
Gartmore British	Yr to Dec 31	85.8	(76.2)	2.19	(1.9)	3.776	(3.683)	1.7★	Feb 27	1.391	8.104	[illegible]
Henderson TR Pacific	Yr to Dec 31	60.9	(68.1)	2.55	(1.36)	1.239	(0.689)	0.25‡	Apr 16	0.25	0.25	0.25
SR Pan-European	Yr to Dec 31	80.32	(65.05)	0.327	(0.307)	1.63	(1.53)	0.8	Apr 30	0.5	1	0.75

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ♦On reduced capital. ♣Aim stock. §Irish currency. ‡Includes foreign income dividend element. ★Comparatives restated. ‡Special of 0.75p (0.2p) also proposed.

EU approval for flu drug

Australian scientists made a rare splash yesterday when a new influenza treatment developed by Biota Holdings, a local biotechnology company, was approved by European regulatory authorities.

Relenza, developed with Glaxo Wellcome of the UK, is an inhaled spray that reduces the symptoms and duration of flu.

The drug, which analysts estimate could reach sales of £400m-£500m, was approved in Sweden. It should now gain European Union-wide approval within 90 days.

BAe ponders Royal Ordnance fate

By Alexander Nicoll

British Aerospace plans to decide the fate of Royal Ordnance, its struggling munitions subsidiary, within six months and may close more of its 12 UK plants, Robin Southwell, a senior BAe executive, said yesterday.

Mr Southwell, a group managing director, has been given responsibility for increasing the profits of a newly reshaped defence systems group that includes most BAe activities not directly related to aircraft.

Royal Ordnance, which employs 4,100 people and is thought to be suffering substantial losses, is the most urgent problem facing him.

The ammunition maker recently announced plans to close its Bishopton plant in Scotland after the Ministry of Defence placed an order for propellant with a South African competitor – a decision which is being examined by the House of Commons defence committee.

Royal Ordnance has been unable to cut costs sufficiently to be competitive with foreign producers of bulk ammunition, although it has had success in some specialist areas such as high explosives and hardened warheads.

BAe has been discussing a joint venture with Rheinmetall of Germany which would preserve the future of some munitions activities. But Mr Southwell said he was still awaiting a proposal from the German company after months of talks. "It is difficult to progress when there is no proposal," he said. "We would be happy to move forward with Rheinmetall, but we're running out of time."

Mr Southwell said the MoD may wish some Royal Ordnance activities to keep going for strategic reasons. Some would be retained by BAe because they had good prospects. Others could be absorbed into a joint venture. If there were businesses which did not fall into any of these categories, "then we will have to look at closing down facilities".

Royal Ordnance accounts for nearly £400m of the group's £2bn turnover.

SB is content playing solitaire for the time being

Drugs group heralds strength and focus but it must deliver, writes David Pilling

The setting was the ballroom at the Grosvenor House hotel in London. But there was no hint of irony from Jan Leschly, SmithKline Beecham's chief executive, as he reiterated that the drugs company was not looking for a partner.

The aim of the string of announcements yesterday was to draw a line under 1998, when the group held aborted merger talks with both American Home Products and Glaxo Wellcome of the UK. "Discussions with Glaxo and AHP are behind us... We are not talking to anyone about mergers and we don't plan to talk to anyone," he said. "The message is we are a stronger company, more focused than ever on consumer health and pharmaceuticals."

Altogether the company announced five initiatives, including a target of at least 15 per cent annual earnings growth from 2000, and a restructuring of global manufacturing designed to save £200m a year. The fact that the Anglo-American drugs company had just announced nearly $2bn of disposals and brought forward by a week its full-year results was nearly lost in the excitement.

If independence is the goal – in a sector that has registered three high-profile mergers in as many months – SB must convince investors it can deliver succulent returns.

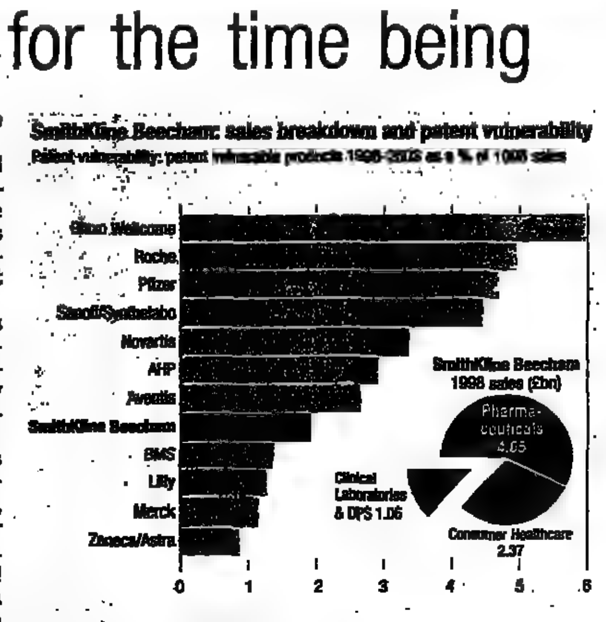
First, it is getting out of its high-volume, but low-margin, healthcare services division, namely its laboratory testing and pharmacy benefit management businesses.

Clinical Laboratories has been sold to Quest Diagnostics of the US for $1.03bn, but SB will keep a 29.5 per cent stake worth $245m. Diversified Pharmaceutical Services, bought for $2.3bn in 1994, is being sold to Express Scripts, a rival pharmacy benefit business, for $700m. SB will take a £446m post-tax charge on the sale in 1998, but will receive tax benefits of $300m.

That represents an about turn in strategy, but analysts are likely to be forgiving. Mr Leschly was not alone in misreading the US healthcare environment and SB will, in any case, retain access to information from both DPS and Clinical Laboratories.

Second, SB is paring its manufacturing and supply chain costs in order to concentrate resources on developing new products and marketing them.

Pharmaceutical companies have traditionally located plants in all the important markets – and many of the unimportant ones. SB will now eradicate overlapping capacity, concentrating production in global centres of excellence.



Source: Goldman Sachs; SmithKline Beecham

That process will cost £750m ($1.23bn) over four years, yielding expected annual savings of £200m by 2002. It will entail cutting 3,000 jobs from the staff of 58,000, and at least some of the losses are likely to come in the company's UK base.

Paring down should allow SB to devote resources where it matters most: research and marketing. The company pushed R&D spending to 19 per cent of sales in the fourth quarter, squeezing margins but enabling it to progress rapidly with Avandia, a potentially blockbuster diabetes drug. Mr Leschly said he thought SB's $1.6bn R&D budget was above the critical threshold, although well below the $2bn-plus spent by some of its bigger rivals.

Higher spending on R&D kept full-year 1998 earnings growth to 10 per cent, squeaking past Mr Leschly's stated goal. Now he is promising more: 13 per cent in 1999, and 15 per cent-plus thereafter, matching most of the US high-flyers.

"Making statements about growth in the mid-to-high teens is, I can tell you, something I do not do lightly," said Mr Leschly.

Nor, he might have added, is it something the markets are likely to forget.

IT BUSINESS AND THE INTERNET

Vital link in the chain of supply

With thousands of products in its catalogue, a glitch-free ordering system is essential for RS Components, writes **Christopher Price**

europe.com

What makes a medium-sized UK distributor of electronic components spend £2.5m on developing an internet site which this year will account for only a fraction of 1 per cent of sales?

Such apparent profligacy is made easier if, like RS Components, you are in a high margin business that last year delivered pre-tax profits of £118m on sales of £662m.

Yet among its peers, the group's investment looks at best premature at a time when business-to-business electronic commerce in its main markets, the UK and the rest of Europe, is in its infancy.

However for Bob Lawson, chief executive of RS's parent, Electrocomponents, the decision to place the internet at the heart of company strategy was an obvious move for a company that has prided itself on using technology to underpin its customer service. "Three years ago, we were the first to put our catalogue on CD-Rom, so it was a natural progression when we found an even better system of information delivery and ordering that we pursue that."

In doing so, the company is following the lead taken by some of the big US distribution companies, such as Federal Express and UPS, in basing its corporate strategy around the internet.

An efficient ordering process lies at the heart of RS's business. It stocks some 130,000 different components and its customers – who are typically engineers and small tradesmen – generally want quick delivery of small amounts of stock. Average orders are about £80 each.

"Our customers are after a solution to their immediate supply problems," says Mr Lawson. "They want availability, reliability, quality and technical support. Price comes about fifth on their list of priorities."

RS's early taste of how technology could change its business prepared the way. In 1994, it sought a means of handling its increasing product list and decided to use CD-Roms.

However, CDRom readers were not standard issue with personal computers then, and few customers had the appropriate equipment to read them. So RS struck a deal with Panasonic to supply CD-Rom readers to its customers.

While the decision resulted in a moderate success – 90,000 of its 200,000 customers used the new format – it also taught RS about the organisation of data for computer users, and how customers responded to new technology. "The CD experience was invaluable in the development of our internet strategy," says Dave Sones, head of IT development.

> 'The site's success is limited by customers not being able to use it'

Mr Sones was a keen observer of the early development of the internet, and found an interested audience among senior RS management. In particular, the new network appeared to offer potential solutions to some of RS's basic delivery problems, especially its growing catalogue.

Mr Sones and Mr Lawson both watched the development and demise of a number of early internet retailing pioneers. "They failed because they could not deliver what they promised," says Mr Lawson. "We were determined not to make that mistake."

Mr Sones and some other developers were despatched to develop a web site and internet strategy within 18 months.

The result (http://rswww.com) won a commendation in last year's FT Web Site awards. It has become an important part of RS's business strategy.

Mr Lawson sees several advantages. First, a new ordering and distribution channel. That has reduced costs for the company in completing orders, and for customers placing them.

For example, Cambridge Consultants, the design and development group, estimates the cost of completing an order to RS from placement to payment of the invoice is £60. That falls to £10 using the internet, and has produced savings in a year of £100,000 for the company.

Second, is the data gleaned. "The quality of information that is acquired on customers is priceless," says Mr Lawson. "We know the products they buy, and those they do not. Now we have to start to learn how to create value for ourselves from this."

Then there is the appeal of the site to new customers. One third of the 50,000 registered site users are new. The average time spent on a visit is 20 minutes.

There are at present 10 customer categories, the site channelling users into areas of the catalogue likely to be of most interest. "Ultimately there will be a category for every individual customer," says Mr Sones.

There are also the customers who are attracted simply as a result of searching the web for a service such as RS's. "That is where people are wrong to judge the success of the site on the number of orders it produces," says Mr Lawson.

He points out that many large companies in the UK refuse to trade electronically. "The site's success is being limited by customers not being able to use it." RS has about 200,000 regular customers.

However, he is confident this will change, and with it their relationship with the likes of RS. "Customer loyalty will go out of the window and will be replaced by customer retention," he says. "It is about how can we best deliver, service and fulfil our customers."

This is the second in a series on European companies putting the internet at the forefront of their activities.

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PAUL TAYLOR IN LONDON
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E (for essential) mail is here

A report confirms that companies must wake up to the 'mission critical' status of the technology – and soon – or they will surely regret it

A report by IMRG (the interactive media in retail group), an industry research and pressure group, confirmed my worst suspicions: many companies still do not realise how "mission critical" internet e-mail has become.

As the author notes, this may be because, when it comes to IT, "the average European company director or government minister could get out of his depth on a damp pavement".

The IMRG researcher recently met one of the UK travel industry's most senior figures who told them "electronic commerce will not have any noticeable impact on the travel trade for the foreseeable future".

That struck the researcher as odd, particularly since the online travel market is on track to make $3bn of sales worldwide this year, rising to $29bn in 2003.

But the unnamed travel industry executive discounted these figures as mere projections. The IMRG researcher pointed out that more than 2m people have bought air tickets on the internet, according to the airlines.

The executive remained unimpressed so the researcher asked him if he had ever used the internet. "I've seen it," he replied. "It was very slow." "How about e-mail? "Of course not," came the reply, "I haven't time to faff about with computers."

I hope this executive was an exception, but I fear not. As the author notes "the fact is that in Europe, government, trade bodies and most industry leaders, despite the rhetoric, have abandoned businesses trying to engage in e-commerce.

"The entrepreneurs are on their own and will just have to muddle through the free-for-all that is e-commerce today as best they can, hoping that US and other foreign competitors don't grab too much of their market before the financial pain goads a sensible response from Europe."

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Opponents of Britain's proposed new rules on encryption and key escrow have taken heart from the French government's recent and surprising decision to liberalise the use of encryption technology on the internet.

Until the reversal last month, France had some of the most draconian rules covering the use of encryption, prompting people such as Craig Barrett, Intel's chief executive, to warn the French government that it risked missing out on the e-commerce revolution.

French pressure groups complained that restricting the use of cryptology was undermining consumer confidence.

The change of heart in Paris has thrown the spotlight back on to the UK. When Labour took over the IT industry believed – wrongly – that Tony Blair's government would abandon plans to introduce key escrow (a system favoured mostly by the police and security services), which involves entrusting an encryption key to a third party. It was something of a shock last year when the UK government announced plans for an e-commerce bill including the appointment of an e-commerce czar and licensing provisions for key escrow.

While the proposals setting out a framework for e-commerce have been broadly welcomed, the encryption proposals have been almost universally condemned as unworkable, costly and unnecessary.

Opposition has focused on submissions to the trade and industry select committee considering the Bill. Instead, organisations such as the Federation of the Electronic Industry have proposed the adoption of trust services based upon the industry-backed Emeritus (E-business Model for the Effective Regulation of an Infrastructure for TrUst Services) project.

Emeritus aims to "plan and initiate an industry-led, voluntary, self-regulatory environment for a single, seamless, global trust services infrastructure". Proponents envisage a model based on a Global Trust Services Federation (GTSF) made up of a Trust Services Association (TSA) in each nation.

Such an approach, if adopted internationally, would satisfy most objections. Hopefully Britain's government will seize this opportunity to reconsider its own proposals.

In Brussels, the latest attempt by the European Commission to construct its own framework for e-commerce was adoption of a draft directive in November.

The proposed directive is designed to regulate electronic commerce and to establish a coherent legal framework for the treatment of online services within the EU. It seeks to deal with the thorny issue of the liability of intermediaries, including internet service providers for the transmission and storage of third-party information, and to strengthen codes of conduct and effective cross-border disputes mechanisms.

***

It was only a matter of time. The long-awaited convergence of traditional telecoms equipment makers and their upstart competitors in the data networking world has created a veritable smorgasbord of mergers and acquisitions.

Technologies such as IP (Internet Protocol), initially developed for computer networks, are edging out those in the old world of telephony.

The result has been a flood of mergers, acquisitions and joint ventures: more than 100 during three years. Suddenly relatively obscure data networking companies have become hot targets for cash rich mainstream vendors of telecoms equipment.

European companies are heavily involved in this buying spree. Nokia, the Finnish mobile telecoms equipment supplier, set the ball rolling a year ago when it bought US-based data networking company Ipsilon Networks for its IP skills.

Alcatel of France bought DSC Communications of the US for $4.4bn and has a partnership with Cisco, the networking market leader.

John Chambers, Cisco's evangelical chief executive, admits that the Alcatel partnership has been disappointing so far, but has been busy building up Cisco's existing strengths in the voice and multimedia networking markets.

Siemens of Germany has teamed up with 3Com of the US to form a $100m joint venture to exploit the rapidly growing market for converged voice and data networks. The 50:50-owned enterprise will design equipment that allows companies to handle their telephone calls over their computer networks.

More deals are likely, particularly in Europe where Ericsson, the Danish telecoms equipment group, has yet to find a data-networking partner.

Despite Lord Simpson's recent insistence that Marconi Communications is not for sale, GEC's telecoms equipment arm appears increasingly isolated in a converging world.

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Viewpoint@FT appears fortnightly, alternating with Louise Kehoe's Eagle Eye column.

INFORMATION TECHNOLOGY
● The FT's review of Information Technology appears on the first Wednesday of each month

EURO PRICES

EQUITIES

Financials dragged down by rate fears

EUROPEAN OVERVIEW

By Vincent Boland

European stock markets tumbled again yesterday. Cautious investors stepped back from the fray as interest rate worries and the economic outlook continued to dominate sentiment.

An emerging trend of selective buying was also evident, with cyclical stocks beginning to find some new friends.

The interest rate factor concerned the US, where the possibility of a rise in rates to tame the buoyant economy would be an unsettling factor for all stock markets.

The dollar rose, as did the euro, pulling back from its lowest levels against the US currency as buyers welcomed supportive data on German unemployment.

There was little corporate news to provide a sense of direction, so the focus was on particular stocks and sectors. Analysts, however, said the fact that markets were high in relative terms was also restraining a wider advance. The main markets fell between 1 and 4 per cent.

The FTSE Eurotop 300 index closed 24.19 lower at 1,173.02, the FTSE Eurotop 100 index lost 56.82 to 2,684.52, and the FTSE Ebloc 100 index fell 29.18 to 976.31.

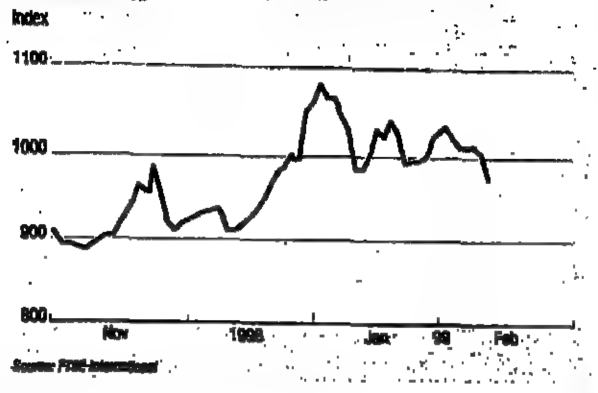
Financials were among the weakest performers given the prominence of interest rate concerns. The sector fell 2.7 per cent, pushed down also by profit-taking after its recent good run in the wake of recent big mergers in banking and insurance. French banks were particularly weak.

Potential mutual fund flows into equities this year should remain buoyant, however, despite the fact that fund inflows fell towards the end of 1998. J.P. Morgan estimates that $130bn could find its way into pure equity and equity-type funds, which account for just over half of all mutual fund purchases by retail investors in Europe.

"Were equity funds to attract 25 per cent of net new monies in 1999, assuming a modest 10 per cent growth in the size of the retail industry, we could expect net subscriptions to pure equity funds of the order of $90bn," the bank's European equity market strategy team said.

"Furthermore, assuming balanced funds continue to represent 28.5 per cent of all new subscriptions, we believe this could generate a further $40bn of demand for equities."

FTSE Ebloc 100



FTSE Actuaries Share Indices — European series

National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop 300	1173.02	-2.02	-24.19	2.31	[illegible]	1208.40
FTSE Eurotop 100	2684.52	-2.07	-56.82	2.36	1.81	962.93
FTSE Ebloc 100	976.31	-2.90	-29.18	2.12	0.39	991.40
FTSE EuroMid	1177.39	[illegible]	[illegible]	2.85	1.22	1221.25
FTSE EuroMid Ebloc	1191.14	-1.09	[illegible]	2.34	[illegible]	1217.74
FTSE EuroMid Ex UK	1225.13	-1.42	-17.64	2.21	0.95	1248.78
FTSE Eurotop 300 Regions						
Eurobloc	1223.74	-2.69	[illegible]	2.06	0.69	1250.62
UK	1096.03	-1.05	-11.50	2.77	0.59	1151.39
Europe Ex-Eurobloc	1132.46	-1.30	-14.89	2.58	0.42	1173.38
Europe Ex-UK	1217.32	-2.50	-31.26	2.09	0.54	1240.84
FTSE Eurotop Industry Sectors						
RESOURCES	856.79	-1.48	-12.84	3.37	0.84	896.97
Mining	841.41	+1.09	+9.11	4.17	0.00	859.17
Oil & Gas	825.17	-1.58	-13.27	3.33	0.84	846.14
BASIC INDUSTRIES	1051.08	-1.76	-18.88	2.78	0.86	1074.34
Chemicals	802.41	-2.34	-19.24	2.81	0.85	817.24
Construction & Bld Matls	952.52	-0.61	-5.88	2.43	1.13	972.08
Forestry & Paper	926.42	+0.44	+4.01	3.41	0.00	968.77
GENERAL INDUSTRIALS	1097.72	[illegible]	-28.62	2.44	0.55	[illegible]
Aerospace & Defence	849.04	-2.48	-21.37	1.95	0.00	860.76
Diversified Industrials	948.19	-2.39	-23.21	2.12	0.00	967.83
Electronic & Elect Equip	1006.00	-1.45	[illegible]	1.85	0.18	1011.88
Engineering & Machinery	[illegible]	-4.12	-41.58	3.75	1.85	982.38
CYCLICAL CONS GOODS	[illegible]	-2.60	-34.28	2.57	0.00	1318.21
Automobiles	945.67	-3.00	-29.29	2.45	0.00	954.44
Household Goods & Texts	1302.50	-0.44	-5.76	2.19	0.00	1313.81
NON-CYC CONS GOODS	1189.01	-0.80	[illegible]	1.53	0.06	1221.79
Beverages	902.58	0.00	-0.01	3.00	0.00	922.05
Food Producers & Process	866.47	-1.88	-16.42	1.79	0.00	876.65
Health	869.00	+0.04	+0.36	6.72	0.00	862.00
Packaging	780.04	+0.30	+2.34	[illegible]	0.00	781.01
Personal Care & Hse Prods	1097.42	-3.68	-41.95	0.85	0.00	1106.79
Pharmaceuticals	1092.72	-0.37	-4.08	1.15	0.00	1096.65
Tobacco	1462.28	+1.54	+22.23	2.72	1.42	1491.57
CYCLICAL SERVICES	1251.94	-2.07	-26.49	2.49	0.95	1269.58
Distributors	690.31	-1.68	-11.88	4.27	0.00	698.08
General Retailers	1018.88	-2.13	-22.20	3.12	1.06	1040.98
Leisure Entertmt & Hotels	879.23	-0.29	[illegible]	2.32	0.02	897.51
Media & Photography	1134.00	-2.92	[illegible]	2.07	0.00	1138.01
Restr, Pubs & Breweries	836.16	-1.19	-10.04	3.34	2.84	863.38
Support Services	1057.32	-2.33	-25.44	1.39	0.00	1078.64
Transport	957.99	-1.15	-11.15	2.62	1.01	977.49
NON-CYCLICAL SERVS	1262.23	-2.28	[illegible]	1.60	0.44	1289.61
Food & Drug Retailers	1022.78	-1.46	-16.06	2.03	0.51	1038.89
Telecommunications Servs	[illegible]	-2.48	-31.00	1.50	0.39	[illegible]
UTILITIES	1482.08	-0.43	-6.27	3.07	3.36	1843.48
Electricity	[illegible]	-0.30	-3.38	3.17	3.42	[illegible]
Gas Distribution	1156.92	-1.77	-20.83	1.65	1.00	1274.86
Water	[illegible]	+1.61	[illegible]	5.25	0.00	[illegible]
FINANCIALS	1213.57	-2.69	-33.61	2.72	0.23	1245.93
Banks	830.09	-2.35	[illegible]	3.56	0.28	842.16
Insurance	966.41	-3.47	-34.39	1.47	0.00	967.95
Life Assurance	1116.21	-2.88	-32.89	1.78	0.00	1130.71
Investment Companies	997.89	-0.40	-3.99	1.78	0.00	[illegible]
Real Estate	686.83	+1.34	+9.11	3.54	[illegible]	704.68
Specialty & Other Fin	853.42	-2.48	-22.03	2.62	0.00	875.80
INFORMATION TECH	895.68	-2.65	-24.35	0.69	0.04	897.84
Information Tech Hardware	[illegible]	-2.59	-25.01	0.77	0.00	943.54
Software & Computer Serv	792.15	-2.81	-22.91	0.48	0.16	794.18

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THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100 - rate

THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100 - rate

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (EDX) €10 per index point

OTHER INDICES

FTSE EUROTOP 300

AEROSPACE & DEFENCE

AUTOMOBILES

BANKS

BEVERAGES

CHEMICALS

CONSTRUCTION & BUILDING

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQUIPT

ENGINEERING & MACHINERY

FOOD & DRUG RETAILERS

FOOD PRODUCERS & PROCESSORS

FORESTRY & PAPER

GAS DISTRIBUTION

GENERAL RETAILERS

HEALTH

HOUSEHOLD & TEXTILES

INFORMATION TECH HARDWARE

INSURANCE

INVESTMENT COMPANIES

LEISURE ENTERTAINMENT & HOTELS

LIFE ASSURANCE

MEDIA & PHOTOGRAPHY

MINING

OIL & GAS

PACKAGING

PERSONAL & HOUSEHOLD PRODUCTS

PHARMACEUTICALS

REAL ESTATE

RESTAURANTS PUBS & BREWERIES

SOFTWARE & COMPUTER SERVICES

SPECIALITY & OTHER FINANCE

SUPPORT SERVICES

TELECOMMUNICATION SERVICES

TOBACCO

TRANSPORT

WATER

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

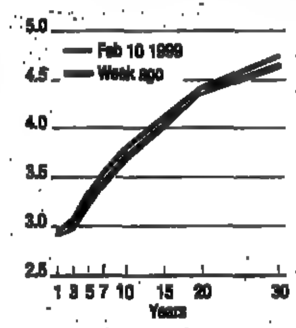
BONDS

INTEREST RATE SWAPS

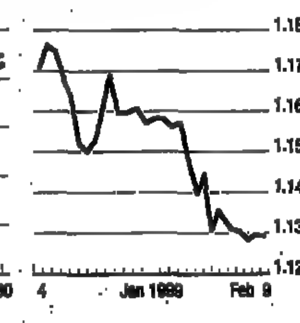
Feb 09	Euro-£ Bid	Euro-£ Ask	Euro-L Bid	Euro-L Ask	£ Stg Bid	£ Stg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.08	3.11	3.08	3.11	5.31	5.34	5.15	5.18	0.48	0.51
2 year	3.10	3.14	3.10	3.14	5.12	5.15	5.24	5.27	0.85	0.88
3 year	3.23	3.27	3.23	3.27	5.08	5.12	5.31	5.34	0.94	0.97
4 year	3.38	3.42	3.38	3.42	5.07	5.11	5.36	[illegible]	1.21	1.24
5 year	3.53	3.57	3.53	3.57	5.05	5.09	5.42	5.45	[illegible]	[illegible]
6 year	3.67	3.71	3.67	3.71	5.04	5.08	5.45	5.48	1.69	1.72
7 year	3.80	3.84	3.80	3.84	5.04	5.08	5.50	5.53	1.88	[illegible]
8 year	3.92	3.96	3.92	3.96	5.04	5.08	5.54	5.57	2.04	2.07
9 year	4.03	4.07	4.03	4.07	5.05	5.09	5.58	5.61	2.17	2.20
10 year	4.12	4.16	4.12	4.16	5.06	5.10	5.61	5.64	2.28	2.31
12 year	4.27	4.31	4.27	4.31	5.08	5.13	5.69	5.72	2.49	2.53
15 year	4.47	4.51	4.47	4.51	5.11	5.16	5.79	5.82	2.71	2.76
20 year	4.68	4.72	4.68	4.72	5.11	5.17	5.92	5.95	2.90	2.94
25 year	4.79	4.83	4.79	4.83	5.11	5.18	5.92	5.95	3.00	3.04
30 year	4.86	4.90	4.86	4.90	5.12	5.19	5.91	5.94	3.06	3.10

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor, £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor, Euro quoted on annual bond 30/360 basis against 6 month Euribor and Libor with the exception of the 1 year rate which is quoted against 3 months Euribor and Libor. Source: Intercapital Brokers Ltd.

Euro bond yield curve



Euro against the dollar



EURO-ZONE BONDS

INTERNATIONAL CAPITAL MARKETS

RUSSIA POTANIN PLEDGES TO REPAY DEBT

Uneximbank bondholders win promise

By Andrew Jack and John Thornhill in Moscow

Vladimir Potanin, one of Russia's most influential businessmen, yesterday pledged that bondholders and other creditors should eventually receive back all their money in Uneximbank, the powerful Russian financial institution in which he has a controlling interest.

Uneximbank told its eurobond holders that it was defaulting on its debt earlier this week. In an interview, Mr Potanin said: "The bank has every possibility to repay all of its debts. It is our responsibility to do so. We consider that our problems are solvable."

His comments come after Uneximbank failed to meet a coupon payment on its $250m Eurobonds which was due at the start of this month. The bank's default on its eurobonds means that its debts now totalled over $700m.

However, Mr Potanin pointed to a confidentiality agreement signed with 50 banks as proof that there was a "dialogue" with Uneximbank and its creditors and a "reasonably positive reaction" to a restructuring from them.

He said accountants KPMG had been appointed by creditors to examine Uneximbank's assets. "We, as a shareholder, will try to be as open as possible. Our aim is to explain to creditors that we are not hiding anything from them. We are trying to keep all the assets which Uneximbank had under control."

He said he believed that his bank had good management and should continue. His preference was for it to merge entirely with Rosbank, a new institution set up jointly with other struggling banks last year. He wanted Uneximbank's creditors to have the option of swapping some of their debt for equity in Rosbank.

Mr Potanin also said yesterday that he was in favour of the temporary appointment of a sympathetic court appointed administrator to run Sidanco, the oil group which he controls and in which BP has a 10 per cent stake. A ruling is expected on a bankruptcy petition in early March.

"The best solution is not bankruptcy," he said. "The company could be very profitable. The best solution is a temporary administrator. The important thing is that it should be a professional, not someone hostile to the company.

"I think we have enough control of the situation. As shareholders we have the majority in the creditors committee. It will have a decisive influence in the appointment."

Commenting on suggestions of a merger proposal with Lukoil, he said: "We don't exclude that we will merge with some other company in the future. For the time being we are more concerned about the problems inside the company."

He also hinted at changes in the top jobs at Sidanco. "The management is not among the strongest in the world or the country."

Japanese yields drop below 2 per cent

BENCHMARK BONDS

By Arkady Ostrovsky and Florian Gimbel in London and John Labate in New York

Bond markets closed higher yesterday after Japanese 10-year bond yields dipped below 2 per cent, the lowest level in two weeks.

The yields on the Japanese government bonds dropped from Monday's close of 2.16 per cent to 1.98 per cent in Tokyo trading.

The fall was prompted by speculation that the Ministry of Finance may cut its monthly 10-year JGB supply in the coming fiscal year, while increasing the supply of four-year and six-year paper.

Kiichi Miyazawa, the Japanese finance minister, denied the speculation of increased supply at the short end, but failed to convince investors.

Ian Douglas at Warburg Dillon Read said that although this would take some pressure off the long end of the curve, the redistribution would not effect the volume of issuance, which is expected to be Y40,000bn this year. "It is therefore unlikely to have much impact on the increase in real yields that will be needed to sell the bonds," he said.

Kit Jukes at Natwest said the ongoing debate over what the Bank of Japan could do to curb the rise in long-term interest rates convinced the market that some action will be taken.

Phyllis Reed at Barclays Capital said: "The question is not whether the Bank of Japan will buy bonds at the long end of the curve, but when it will start to do so."

But she warned the rally in the JGBs could be short-lived. She said yields would have to go well above 2 per cent and possibly up to 5 per cent in order to entice foreign bond investors. "Markets will want to see a yield level that compensates them for the risk they are taking – both in terms of credit and inflation risk."

US Treasuries gained ground in early trading, ahead of the first of the week's auctions of new issues.

By early afternoon the benchmark 30-year bond had gained ½ to 99¼, sending the yield lower to 5.312 per cent.

The 10-year note was $\frac{4}{32}$ higher at 98$\frac{25}{32}$, yielding 4.883 per cent while the two-year note had gained $\frac{1}{32}$ to 99½, yielding 4.766 per cent.

The day's release of productivity figures confirmed the view that the US economy grew at a healthy pace late last year with little inflationary pressure. Productivity in the fourth quarter grew 3.7 per cent, while unit labour costs declined 0.2 per cent during the period.

The auction of $15bn in five-year notes, expected later in the afternoon, marked the first of the week's $35bn issue auction.

On Wednesday an auction of $10bn in 10-year notes will be auctioned, with $10bn in 30-year bonds expected on Thursday.

European bond markets took their cue from US treasuries and Japanese bonds.

Germany's March 10-year bund futures rose by 0.63 to 116.32 after several days of declines. The market shrugged off Germany's unemployment figures which showed a stronger-than-expected drop in seasonably adjusted unemployment in January. The UK gilts March future rose by 0.40 to 118.70.

Analysts said the rise in the European markets was the result of the correction after Monday's over-selling. However the consensus is that the European bond markets may be subdued in the short term as it is unlikely that the European Central Bank would cut interest rates in the first quarter of the year.

Jexim breaks new ground with FRN

NEW ISSUES

By Khozem Merchant

The Export-Import Bank of Japan (Jexim) broke from the crowd on a day of high-volume corporate issuance by launching the first floating rate note by a Japanese government guaranteed agency.

Jexim's $1bn issue was also the largest foreign currency deal by an agency, and contrasted with dollar issuance aimed at the continuing investor popularity for corporate names such as the Spanish oil company Repsol.

Jexim's bond is the first by a Japanese agency in seven months; Jexim was also the borrower then. Since then, Japan's sovereign rating has been downgraded while the government has unveiled a massive programme of bond issuance to fund its fiscal stimulus package.

The Jexim bond, Paribas, the lead manager, said, was a response to "an extreme shortage of large liquid sovereign FRNs". The five-year bond was priced at three-month libor plus 6.25 basis points and tightened to four basis points. Bankers said the bond was aimed at central banks, especially in Europe.

Sovereign FRN issuance is relatively rare and yesterday's instance is unlikely to lead to another upsurge.

One reason is that the fiscal positions of most OECD countries, excluding recession-hit Japan, are sound and there is a preference for issuing in euro fixed-rate bonds. The agency is unlikely to come to the market in the near future.

The last FRN surge was in 1994 when the US Federal Reserve hiked rates and effectively closed off the fixed-rate market in what was a bear environment. Sovereign borrowers promptly turned to floaters.

Some analysts point out that the speculation about the return of a bear market in the US raised parallels with 1994.

Repsol was the biggest industrial name to tap the market with a debut €1.1bn bond that was increased twice from €500m and then €750m. Proceeds from the five-year bond will partly offset the cost of a recent $2bn acquisition of a stake in YPS, the largest oil company in Argentina.

This was a rare issue by Repsol. Its outstanding debt is small and confined to a yankee issue. Historically it has relied on bank loans and the decision to tap the capital markets is an example of the widely forecast trend post-euro of companies bypassing traditional banks and opting for the capital markets.

The bond was priced at a spread of 45 basis points over the Treuhand, the German government bonds issued at the time of unification in 1990, and traded slightly in.

Freddie Mac, the US mortgage agency, launched a two-year $4bn bond which will be priced today around 30 basis points over the relevant US Treasuries.

The Province of Quebec launched a $1bn bond which excited European investors. One bank said it received orders of $600m from European buyers for an issue it said was oversubscribed. European investors have traditionally opted for higher rated issues.

But Quebec, which is rated A2/A+, illustrates European investors hunger for lower-rated credit products as they broaden their portfolios.

The Quebec issue follows global issues by the state of Alberta last year but generally there is limited supply of issuance by provinces. The 10-year bond was priced at a spread of 90 basis point over the relevant Treasuries and tightened by two basis points.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Merrill Lynch & Co Inc	2bn	6.00#	99.488R	Feb 2009	0.45R	+120(Nov08)	Merrill Lynch
Province of Quebec	1bn	5.75#	99.738R	Feb 2009	0.35R	+90(4¾Nov08)	CSFB/Goldman/Salomon
Export-Import Bk of Japan‡	1bn	(a)	99.50R	Mar 2004	0.15R	-	Paribas
European Inv'ment Bank(b)	250	5.375	99.48	Sep 2008	0.325	[illegible]	Greenwich NatWest
Oest Investkredit‡	150	(c)	99.928R	Feb 2004	0.15R	-	Commerzbank
EUROS(e)							
Repsol Intl Finance NV	1.1bn	3.75	99.731R	Feb 2004	0.30R	+45(6¾Nov03)	BBV/Goldman/Invercaixa
Deutsche Finance Nethe‡	500	(d)	99.778R	Feb 2004	0.15R	-	Deutsche Bank
La Poste(f)	400	4.00(s)	99.388R	Apr 2009	0.325R	+20(Apr09)	JP Morgan/Paribas
Muenchener Hypo(p)	400	4.125	99.70R	Feb 2009	0.15R	+37(3¾Jan09)	(k)
Hellenic Republic(g)	300	5.00	99.40R	Mar 2019	0.10R	-	BP di Hamm/CSFB
Oest Kommunalkredit‡	200	(h)	99.753R	Feb 2005	0.175R	-	Deutsche Bank
STERLING							
Halifax Intl Finance	200	4.75(s)	98.0575R	Dec 2009	0.325R	+65(5¾Dec09)	RBC DS Global Markets
SWISS FRANCS							
Halifax Intl Finance	250	2.00	99.45	Mar 2005	2.25	-	Warburg Dillon Read
JAPANESE YEN							
Ensemble Ltd(j)★	91.5bn	-	-	-	-	-	Nomura International
GREEK DRACHMA							
European Investment Bank	30bn	6.00	99.9125R	Mar 2002	0.1675R	-	Alpha Credit/TD Secs

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor -6¾bp. b) Fungible with $1.75bn. Plus 157 days accrued. c) 3-mth Libor +12½bp. d) 3-mth Euribor +⅛%. e) Spread relates to German govt bonds unless stated. f) Spread re French govt bonds. g) Italian domestic. h) 3-mth Euribor +12½bp. j) 3-tranche repacking of euroyen bonds. k) Joint bookrunners: BGL, CCBP, OCP, GZB, SGZ and WGZ. p) Oeffentliche Pfandbriefe. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Feb 9	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.0900	4.82	-0.03	+0.11	+0.14	-0.38
	08/08	8.750	126.1074	5.23	-0.04	+0.12	+0.10	-0.72
Austria	07/00	8.875	103.9000	3.02	-0.04	-0.01	-0.12	-1.12
	01/08	5.000	107.8100	3.94	-0.07	+0.08	+0.05	-1.26
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

10 YEAR BENCHMARK SPREADS

[illegible]	[illegible]	[illegible]

EMERGING MARKET BONDS

[illegible]	[illegible]	[illegible]

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	111.32	111.89	+0.39	112.01	111.32	33,030	91,910

[illegible]	[illegible]	[illegible]

US CORPORATE BONDS

Feb 9	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	103.6044	5.41	-0.02	+0.03	+5.41
NY Tel	08/25	7.00	A+	100.7540	6.93	-0.01	+0.03	+1.38
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

US INTEREST RATES

[illegible]	[illegible]	[illegible]

INTERNATIONAL BONDS

Feb 9	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
US $								
EIB	04/07	7.250	AAA	111.0649	5.53	-0.03	+0.09	+0.66
ABN Amro	06/07	7.125	AA-	103.3421	6.20	-0.03	-0.19	+1.35
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK BONDS

FTSE Actuaries Government Securities — UK Indices

[illegible]	[illegible]	[illegible]

UK GILTS PRICES

[illegible]	[illegible]	[illegible]

Japan money worries keep yen mired

MARKETS REPORT

By Alan Beattie

Uncertainty about the Bank of Japan's willingness to pump money into the economy kept the yen mired in familiar territory against the dollar yesterday.

Comments by Masaru Hayami, the Bank of Japan's governor, yesterday seemed to suggest that the central bank was rejecting the principle as well as the legality of monetising the country's debt.

The yen failed to break back below Y115, a level at which much support in the form of yen buying by Japanese corporates is believed to be slowing the currency's fall.

At the end of London trading yesterday the yen closed at Y114.4 against the dollar, little changed on the day. It fell slightly against the euro, closing down at Y129.2 compared with Y127.9 on Monday.

Much attention in recent days has focused on the possibility that the Bank of Japan will overcome its reluctance to bail the government out by buying JGBs on a large scale.

"The Bank of Japan is reluctant to increase the size of its balance sheet at a time of banking sector consolidation," said Derek Halpenny, currency analyst at the Bank of Tokyo-Mitsubishi in London yesterday.

Mr Halpenny said that outright purchases of JGBs were prevented by the BoJ's charter, and that it had set its face against intervening in the secondary market.

The unwillingness to print money was reiterated yesterday by Masaru Hayami, who told a parliamentary committee of Japan's lower house that the central bank buying or underwriting government bonds would lead to a loss of fiscal discipline.

"One option left is the twist operation, whereby the Bank of Japan sells short-dated assets to buy longer-dated ones, leaving the overall position of its balance sheet undisturbed," said Mr Halpenny.

But this now appears less likely after comments by Kiichi Miyazawa, the finance minister, that such a policy did not work when tried in the US, Mr Halpenny added.

Philippa Malmgren, currency strategist at Bankers Trust in London, said that the Japanese authorities were caught between a rock and a hard place.

"The rock is that part of the market which is convinced that they will print money and that the yen will fall, while the hard place is those who think that yields will rise and the yen will strengthen no matter what," she said.

Ms Malmgren said that if a large-scale monetisation raised inflation expectations in Japan, it could drive bond yields back up and strengthen the currency.

"Rumours have circulated recently that the Bank of Japan may adopt an inflation target, possibly as early as its meeting this Friday," she added. "This would almost certainly be seen as the precursor to printing money."

The confusion over the direction of policy in Japan was underlined yesterday by a straw poll conducted by Tetsu Yamakawa, director of Japanese research for Goldman Sachs, at the US bank's foreign exchange conference in London.

Around half of those present thought Japan should monetise its debt, but only one or two believed that it would.

"That underlines the uncertainties around Japanese policy-making," he said.

■ The Brazilian Real yesterday managed to hold its level in the face of political conflict over the country's public debt.

A meeting between government ministers and three opposition state governors failed to make substantive progress on the governors' demands for better terms over the repayment of debt to the federal government.

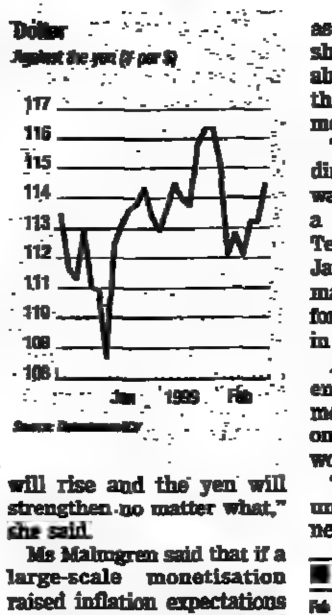
But the Real managed to stave off speculative attacks, finishing London trading hours at R$1.9050, little changed from Monday.

Analysts said that the markets may be giving the federal government a few weeks' grace. "This should not be blown out of proportion," said Tom Trebat, head of emerging markets analysis at Citibank in New York.

"But if the federal government still has no credible fiscal plan in a couple of weeks' time, we could well be seeing new problems for Brazil," he added.

Dollar

Against the yen (Y per $)



Source: [illegible]

■ POUND IN NEW YORK

Feb 9	Latest	Prev. close
£ spot	1.6345	1.6380
1 mth	1.6333	1.6373
3 mth	1.6327	1.6363
1 yr	1.6338	1.6377

■ OTHER CURRENCIES

Feb 9	£	$
Czech Rp	[illegible]	[illegible]
Hungary	391.546 - 391.959	220.940 - 221.090
Iran	4911.50 - 4909.20	3000.00 - 3000.00
Kuwait	0.4953 - 0.4957	0.3027 - 0.3028
Peru	5.5362 - 5.5468	3.3850 - 3.3880
Poland	6.1250 - 6.1355	3.7430 - 3.7500
Russia	37.3804 - 37.7073	[illegible]
U.A.E.	6.0100 - 6.0135	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Feb 9		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	19.9317	-0.0409	239 - 401	19.9872	19.8908	19.8954	2.2	19.8294	2.2	19.515	2.1	102.8
Belgium*	(BFr)	58.4322	-0.1197	075 - 568	58.5380	58.2820	58.3257	2.2	58.1058	2.2	57.2187	2.1	[illegible]
Denmark	(DKr)	10.7859	-0.0256	601 - 735	10.7860	10.7448	10.7512	1.7	10.7167	1.8	10.5911	1.8	[illegible]
Finland*	(FM)	8.6124	-0.0178	087 - 160	8.6280	8.5900	8.5957	2.2	8.5843	2.2	8.4322	2.1	81.5
France*	(FFr)	9.5015	-0.0165	[illegible]	9.5184	9.4772	9.4841	2.2	9.4484	2.2	9.3038	2.1	106.1
Germany*	(DM)	2.8330	-0.0059	318 - 342	2.8358	2.8253	2.8279	[illegible]	2.8172	2.2	2.7738	2.1	[illegible]
Greece	(Dr)	457.054	[illegible]	734 - 453	468.046	465.800	468.895	-4.0	472.141	-4.3	485.388	-3.0	82.7
Ireland*	(I£)	1.1400	-0.0023	403 - 413	1.1428	1.1379	1.1387	2.2	1.1344	2.2	1.117	2.1	94.1
Italy*	(L)	2804.60	[illegible]	[illegible]	2809.57	2797.03	2799.57	2.2	2789.02	2.2	2748.04	2.1	75.7
Luxembourg*	(LFr)	58.4322	-0.1197	075 - 568	58.5380	58.2820	58.3257	2.2	58.1058	2.2	57.2187	2.1	102.7
Netherlands*	(Fl)	3.1921	[illegible]	907 - 934	3.1978	3.1840	3.1886	2.2	3.1743	2.2	3.1254	2.1	102.1
Norway	(NKr)	12.5215	-0.0042	127 - 303	12.6146	12.4810	12.5427	-2.0	12.5764	-1.8	12.6184	-0.8	92.2
Portugal*	(Es)	290.267	[illegible]	[illegible]	290.912	289.652	289.868	2.2	288.775	2.2	284.328	2.1	92.2
Spain*	(Pta)	241.009	-0.4940	908 - 111	241.440	240.350	240.57	2.2	238.883	2.2	235.97	2.1	76.9
Sweden	(SKr)	12.8972	+0.0017	867 - 077	12.9160	12.8210	12.8753	2.0	12.8307	2.1	12.6583	1.9	82.9
Switzerland	(SFr)	2.3105	-0.0013	176 - 202	2.3272	2.3124	2.3112	4.0	2.2954	4.1	2.2265	3.8	107.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	100.5
Euro	(€)	1.4465	-0.0080	478 - 491	1.4512	1.4446	1.4459	2.2	1.4435	2.2	1.4188	2.1	-
SDR†	-	1.175900	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6369	+0.0049	362 - 379	1.6439	1.6342	-	-	-	-	-	-	-
Brazil	(R$)	3.1182	+0.0588	092 - 271	3.1972	3.1092	-	-	-	-	-	-	-
Canada	(C$)	2.4454	+0.0173	440 - 468	2.4507	2.4418	2.4444	0.5	2.4429	0.4	2.4407	0.2	78.2
Mexico	(New Peso)	16.4908	+0.0163	[illegible]	16.5712	16.4484	16.8512	-28.2	17.3770	[illegible]	20.4916	-24.3	-
USA	($)	1.6388	+0.0040	384 - 372	1.6432	1.6344	1.636	0.9	1.636	0.4	1.6361	0.0	104.9
Pacific/Middle East/Africa													
Australia	(A$)	2.5254	+0.0198	234 - 273	2.5420	2.5212	[illegible]	0.8	2.521	0.7	2.5176	0.3	81.1
Hong Kong	(HK$)	12.6839	[illegible]	[illegible]	12.7327	12.6681	12.6845	-0.1	12.7057	-0.7	12.8844	[illegible]	-
India	(Rs)	69.4699	+0.1515	468 - 918	69.7370	69.4498	69.749	-4.8	70.4601	-5.5	74.5018	-7.2	-
Indonesia	(Rupiah)	14403.85	-127.6300	850 - 922	14751.60	14102.30	14785.2	-30.1	15096.09	-35.8	19895.54	-31.2	-
Israel	(Shk)	6.6846	+0.0173	739 - 952	6.6952	6.6739	-	-	-	-	-	-	-
Japan	(Y)	187.217	+1.5570	122 - 312	188.410	186.980	186.492	4.6	184.992	5.0	178.382	4.7	134.1
Malaysia	(M$‡)	6.2198	+0.0152	857 - 900	6.2438	6.2118	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.9444	+0.0240	410 - 478	2.9580	2.9406	2.9404	1.6	2.9352	1.2	2.9336	0.4	99.9
Philippines	(Peso)	64.6537	+0.3233	123 - 180	64.9150	64.3923	65.016	-6.7	65.8173	-7.2	69.5388	-7.6	-
Saudi Arabia	(SR)	6.1392	+0.0155	373 - 410	6.1625	6.1305	6.1423	-0.6	6.159	-1.3	6.2477	-1.8	-
Singapore	(S$)	2.7895	+0.0103	880 - 710	2.7905	2.7682	2.7822	3.1	2.7481	3.1	2.7081	2.2	-
South Africa	(R)	9.9937	+0.2492	820 - 053	9.8977	9.8258	10.0731	-9.7	10.2302	-9.3	10.9194	-8.2	-
South Korea	(Won)	1924.08	+4.3500	113 - 606	1929.33	1921.13	-	-	-	-	-	-	-
Taiwan	(T$)	52.8605	+0.1798	059 - 140	53.0368	52.7743	53.122	-5.9	53.3178	-3.5	54.6979	-2.3	-
Thailand	(Bt)	60.7744	+0.4850	777 - 711	60.8711	59.1420	60.8359	-1.2	61.0673	-1.9	62.5463	-2.9	-

† Rates for Feb 8. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1.2.95. * EMU member. The exchange rates printed in this table are also available on the internet at http://www.FT.com.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 9		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria*	(Sch)	12.1773	[illegible]	751 - 794	[illegible]	12.1300	12.1808	1.6	12.1226	1.8	11.9282	2.0	102.5
Belgium*	(BFr)	35.6950	-0.1619	927 - 003	35.7490	35.5610	35.6507	1.8	35.5386	1.8	34.9687	2.0	102.7
Denmark	(DKr)	6.5780	-0.0320	755 - 805	6.5902	6.5565	6.5715	1.2	6.5557	1.4	6.4736	1.6	105.1
Finland*	(FM)	5.2617	-0.0239	808 - 826	5.2687	5.2413	5.2546	1.6	5.2381	1.8	5.1541	2.0	80.7
France*	(FFr)	5.8059	-0.0283	039 - 080	5.8126	5.7824	5.7971	1.6	5.7780	1.8	5.6882	2.0	105.5
Germany*	(DM)	1.7308	-0.0079	305 - 311	[illegible]	1.7241	1.7285	1.6	1.723	1.8	1.6954	2.0	100.4
Greece	(Dr)	285.370	-1.0800	220 - 380	289.030	284.119	288.465	-4.6	288.77	-4.8	295.57	-4.0	82.4
Ireland*	(I£)	1.4340	+0.0085	346 - 351	1.4404	[illegible]	[illegible]	-1.6	1.4414	-1.8	1.4648	-2.1	-
Italy*	(L)	1713.61	-7.7700	321 - 392	1715.79	1708.87	1711.18	1.6	1705.81	1.8	1678.45	2.0	75.3
Luxembourg*	(LFr)	35.6950	-0.1619	927 - 003	35.7490	35.5610	35.6507	1.8	35.5386	1.8	34.9687	2.0	102.7
Netherlands*	(Fl)	1.9502	-0.0089	498 - 505	1.9528	1.9426	1.9478	1.8	1.9414	1.8	1.9103	2.0	102.0
Norway	(NKr)	7.6590	-0.0215	465 - 595	7.6942	7.6229	7.6665	-2.5	7.692	-2.3	7.7128	-0.8	91.5
Portugal*	(Es)	177.418	-0.8040	396 - 440	[illegible]	176.720	177.178	1.6	176.521	1.8	173.768	2.0	92.5
Spain*	(Pta)	147.244	-0.6880	218 - 270	147.449	146.570	147.045	1.6	146.582	1.8	144.232	2.0	78.5
Sweden	(SKr)	7.8795	-0.0185	730 - 840	7.8935	7.8210	7.8698	1.5	7.8475	1.6	7.737	1.8	82.7
Switzerland	(SFr)	1.4157	-0.0044	102 - 172	1.4192	[illegible]	1.4126	3.4	1.4039	3.6	1.3655	3.5	107.2
UK	(£)	1.6388	+0.0040	364 - 372	1.6432	1.6344	1.636	0.6	1.635	0.4	1.6381	0.0	100.3
Euro	(€)	1.1330	+0.0031	296 - 302	1.1344	[illegible]	1.1315	-1.6	1.1351	-1.6	[illegible]	-2.1	-
SDR†	-	0.71988	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9999	0.9999	-	-	-	-	-	-	-
Brazil	(R$)	[illegible]	[illegible]	[illegible]	[illegible]	1.9000	-	-	-	-	-	-	-
Canada	(C$)	[illegible]	[illegible]	935 - 945	[illegible]	1.4900	1.4941	-0.1	[illegible]	0.0	[illegible]	0.1	78.3
Mexico	(New Peso)	10.0730	-0.0150	700 - 800	10.0800	[illegible]	10.3	-28.8	10.7475	-26.7	12.525	-24.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	106.1
Pacific/Middle East/Africa													
Australia	(A$)	1.5429	+0.0083	420 - 437	1.5504	[illegible]	1.5425	0.3	1.542	0.2	1.5414	0.1	82.0
Hong Kong	(HK$)	7.7492	-0.0001	487 - 497	7.7497	7.7487	7.7532	-0.6	7.7717	-1.2	7.9242	-2.3	-
India	(Rs)	[illegible]	[illegible]	400 - 450	42.4500	42.4350	42.8325	-6.4	43.11	-6.3	45.5375	-7.3	-
Indonesia	(Rupiah)	8800.00	-100.0000	000 - 000	9000.00	8800.00	9035	-38.7	9600	-38.4	11650	-31.2	-
Israel	(Shk)	4.0839	+0.0004	784 - 894	4.0894	4.0792	-	-	-	-	-	-	-
Japan	(Y)	114.360	+0.5700	380 - 410	114.670	114.250	113.97	4.3	113.09	4.5	108.94	4.7	135.2
Malaysia	(M$‡)	3.8000	-	300 - 300	3.8000	3.8000	-	-	-	-	-	-	-
New Zealand	(NZ$)	1.7989	+0.0103	973 - 005	1.8031	1.7963	1.7971	1.2	1.7954	0.8	1.7966	0.2	-
Philippines	(Peso)	39.5000	+0.1000	300 - 500	39.6500	39.3500	39.74	-7.3	40.265	-7.6	42.5325	-7.7	-
Saudi Arabia	(SR)	3.7507	+0.0002	505 - 509	3.7509	3.7505	3.7544	-1.2	3.767	-1.7	3.8187	-1.8	-
Singapore	(S$)	1.6920	+0.0021	915 - 925	1.6949	1.6900	1.6884	2.6	1.6808	2.6	1.6552	2.2	-
South Africa	(R)	6.1050	+0.1375	000 - 100	[illegible]	[illegible]	6.157	-10.2	6.257	-10.0	[illegible]	-9.2	-
South Korea	(Won)	1175.50	-0.2500	400 - 700	1178.00	1174.00	-	-	-	-	-	-	-
Taiwan	(T$)	32.2950	+0.0300	700 - 200	[illegible]	[illegible]	32.47	-6.5	32.81	-3.9	33.08	-2.4	-
Thailand	(Bt)	37.1300	+0.2050	800 - 800	37.1800	36.0500	37.185	-1.5	37.35	-2.4	38.23	-3.0	-

† SDR rate per $ for Feb 8. ‡ Official rate set by Malaysian government. The WM/Reuters rate for the valuation of capital assets is 6.43 MYR/USD, a discount of 30% on the official rate. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & Euro are quoted in US currency. J.P. Morgan nominal indices Feb 8: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS 4pm CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T. * EMU member. The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

Feb 9	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Euro-zone	3⅛	3⅛	3⅛	[illegible]	3⅛	-	3.00	3.00
Switzerland	1⅛	1⅛	1⅜	1⅜	1½	-	1.00	-
US	4⅝	4⅞	4⅞	4⅞	5⅛	-	4.50	-
Japan	¼	[illegible]	⅜	⅜	⅜	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	4⅞	4⅞	5	5⅛	-	-	-
US Dollar CDs	-	4.74	4.79	4.82	4.91	-	-	-
Euro Linked Ds	-	3⅛	3⅛	3⅛	3⅛	-	-	-
SDR Linked Ds	-	3⅝	3⅜	3⅜	3⅜	-	-	-
BBA Euro Libor	-	3⅛	3⅛	3⅛	3⅛	-	-	-
Euro Euribor	-	3.157	3.112	3.054	3.041	-	-	-
EONIA	3.13	-	-	-	-	-	-	-
EURONIA	3.1328	-	-	-	-	-	-	-

London Interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Ds).

INTERNATIONAL CURRENCY RATES

Feb 9	Short term	7 days notice	One month	Three months	Six months	One year
Euro	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3	3⅛ - 2⅞
Danish Krone	3⅞ - 3⅝	3¾ - 3⅝	3⅞ - 3⅝	3⅞ - 3⅝	3⅞ - 3⅝	3⅞ - 3⅝
Sterling	5¾ - 5⅝	5⅝ - 5½	5⅝ - 5½	5½ - 5⅜	5⅜ - 5¼	5⅛ - 5
Swiss Franc	1⅛ - 1	1⅛ - 1	1⅛ - 1⅛	1⅛ - 1⅛	1⅜ - 1⅛	1½ - 1⅜
Canadian Dollar	5⅛ - 4⅞	5⅛ - 4⅞	5⅛ - 4⅞	5 - 4⅞	4⅞ - 4⅞	5⅛ - 4⅞
US Dollar	4⅝ - 4⅝	4⅝ - 4⅝	4⅞ - 4⅞	4⅞ - 4⅞	5 - 4⅞	5⅛ - 5⅛
Japanese Yen	¼ - ⅛	¼ - ⅛	⅜ - ¼	⅜ - ¼	⅜ - ¼	⅜ - ¼
Asian $Sing	⅛ - ⅛	2⅛ - 1⅝	1⅛ - 1	1⅝ - 1⅝	2⅛ - 1⅝	2⅛ - 2⅛

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.94	96.94	-	96.95	96.93	11,208	33,181
Jun	97.05	97.06	-0.01	97.07	97.04	8,352	19,981

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.935	96.940	-	96.945	96.930	28302	112772
Jun	97.050	97.065	+0.015	97.070	[illegible]	[illegible]	106450
Sep	97.090	97.115	[illegible]	97.125	97.075	27098	82294
Dec	96.835	96.880	+0.035	96.885	96.830	7974	88280

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.930	96.940	-	96.945	96.930	4254	[illegible]
Jun	97.045	97.065	+0.015	97.070	97.030	10600	132880
Sep	97.080	97.115	+0.025	97.115	97.080	899	123819
Dec	96.845	96.880	+0.035	96.875	96.835	457	100194

■ EURIBOR OPTIONS (LIFFE) €1m 100 - rate

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Mar	PUTS Jun	PUTS Sep	PUTS Dec
96875	0.085				0.020			
97000	0.040	0.145	0.220	0.165	0.100	0.080	0.105	0.285
97125	0.010				0.195			
97250	0.005	0.045	0.100	0.085	0.315	0.230	0.235	0.455

Est. vol. total, Calls 16080 Puts 2445. Previous day's open int., Calls 74884 Puts 37725

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100 - rate

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Mar	PUTS Jun	PUTS Sep	PUTS Dec
96875	0.085				0.020			
97000	0.040	0.145	0.220	0.165	0.100	0.080	0.105	0.285
97125	0.010				0.195			
97250	0.005	0.045	0.100	0.085	0.315	0.230	0.235	0.455

Est. vol. total, Calls 5278 Puts 51. Previous day's open int., Calls 340837 Puts 177887

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.650	98.680	+0.020	98.690	98.650	11878	86286
Jun	98.510	98.560	+0.040	98.570	98.510	11897	85730
Sep	98.400	98.450	+0.040	98.460	98.390	3328	33903
Dec	98.180	98.170	+0.040	98.180	98.160	838	[illegible]

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		99.43	+0.01			0	0
Jun		99.54	+0.01			0	0
Sep	99.46	99.46	+0.01	99.49	99.49	200	0

* LIFFE futures also traded on APT

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr1m 100 - rate

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
98750	0.075	0.110	0.135	0.145	0.300	0.435
98875	0.035			0.230		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 3860 Puts 2112

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Feb 9		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	€
Belgium*	(BFr)	100	18.43	16.26	4.848	1.952	4800	5.463	21.43	497.0	412.5	22.07	3.989	1.711	4.185	2.801	[illegible]	2.479
Denmark	(DKr)	54.27	10	8.825	2.631	1.060	2606	2.965	11.63	269.7	223.8	11.98	[illegible]	0.929	2.271	1.520	173.9	1.346
France*	(FFr)	61.50	11.33	10	2.982	1.201	[illegible]	3.360	13.18	305.6	253.7	13.57	2.441	1.053	2.574	1.723	197.0	1.525
Germany*	(DM)	20.63	3.801	3.354	1	0.403	990.0	1.127	4.420	102.5	85.07	4.553	0.819	0.353	0.863	0.578	66.06	0.511
Ireland*	(I£)	51.22	[illegible]	8.329	2.483	1	2459	2.798	10.98	254.6	211.3	11.31	2.033	0.877	2.144	1.435	164.1	1.270
Italy*	(L)	2.083	0.384	0.339	0.101	0.041	100	0.114	0.446	10.35	8.593	0.460	[illegible]	0.036	0.087	0.058	6.675	0.052
Netherlands*	(Fl)	18.31	3.373	2.977	0.888	0.357	878.6	1	3.923	90.97	75.50	4.040	0.726	0.313	0.766	0.513	58.65	0.454
Norway	(NKr)	46.67	8.599	7.588	2.263	0.911	2240	2.549	10	231.9	192.5	10.30	1.852	0.799	1.953	1.307	149.5	1.157
Portugal*	(Es)	20.12	3.708	3.272	0.976	0.393	965.8	1.099	4.312	100	83.00	4.441	0.798	0.344	0.842	0.564	64.47	0.499
Spain*	(Pta)	24.24	4.467	3.942	1.176	0.473	1164	1.324	5.195	120.5	100	5.351	0.962	0.415	1.015	0.679	77.68	0.601
Sweden	(SKr)	45.31	8.348	7.367	2.197	0.885	2175	2.475	9.709	225.2	186.9	10	1.798	0.775	1.896	1.269	145.2	1.123
Switzerland	(SFr)	25.20	4.643	4.097	1.222	0.492	1209	1.377	5.400	125.2	103.9	5.562	1	0.431	1.055	0.706	80.74	0.625
UK	(£)	58.43	10.77	9.501	2.833	1.141	2805	3.192	12.52	290.4	241.0	12.90	2.319	1	2.445	1.637	187.2	1.448
Canada	(C$)	23.89	4.403	3.885	1.158	0.466	1147	1.305	5.120	118.7	98.55	5.274	0.948	0.409	1	0.669	76.56	0.592
USA	($)	35.70	6.578	5.805	1.731	0.697	1714	1.950	7.650	177.4	147.2	7.880	1.417	0.611	1.494	1	114.4	0.885
Japan	(Y)	31.21	5.751	5.075	1.513	0.609	1498	1.705	6.688	155.1	128.7	6.889	1.239	0.534	1.306	0.874	100	0.774
Euro	(€)	40.34	7.433	6.560	1.956	0.788	1936	2.204	8.645	200.5	166.4	8.904	1.601	0.690	1.688	1.130	129.2	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100. * EMU member

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5770	0.5787	-0.0013	0.5806	0.5784	18,806	59,854
Jun	0.5828	0.5828	-	0.5828	0.5828	118	1,705
Sep	0.5840	-	-	-	-	-	166

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	[illegible]	0.8760	-0.0011	0.8768	0.8740	18,998	70,432
Jun	0.8847	[illegible]	-0.0015	0.8858	0.8843	182	5,174
Sep	[illegible]	-	-	-	-	1	1,498

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.7070	0.7083	-0.0009	0.7110	0.7078	16,646	56,507
Jun	0.7150	0.7172	+0.0015	0.7179	0.7172	97	580
Sep	0.7190	-	-	-	-	-	320

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.6314	1.6366	-0.0030	1.6394	1.6340	7,359	52,850
Jun	1.6290	-	-	-	-	12	1,800
Sep	1.6424	-	-	-	-	-	220

UK INTEREST RATES

LONDON MONEY RATES

Feb 9	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7¼ - 5¼	5¾ - 5½	5⅝ - 5½	5⅜ - 5¼	5¼ - 5⅛	5⅛ - 5⅛
Sterling CDs	-	-	5¼ - 5	5⅜ - 5¼	5⅜ - 5⅜	5⅛ - 5⅛
Treasury Bills	-	-	5⅜ - 5⅜	5⅜ - 5⅜	-	-
Bank Bills	-	-	5⅜ - 5⅜	5¼ - 5⅜	-	-
Local authority deps.	6½ - 5⅜	5⅜ - 5⅝	5⅜ - 5⅜	5¼ - 5⅛	5¼ - 5⅛	5⅛ - 5¼
Discount Market deps	6 - 5¼	5⅜ - 5¼	-	-	-	-

UK clearing bank base lending rate 5½ per cent from Feb 4, 1999

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 1pc. Ave. tender rate of discount on Feb 5, 5.1040pc. ECGD fixed rate Stg. Export Finance. Make up day Jan 29, 1999. Agreed rate for period Feb 24, 1999 to Mar 23, 1999, Scheme III 7.19pc. Reference rate for period Jan 1, 1999 to Jan 29, 1999, Schemes IV & V 5.909pc. Finance House Base Rate 6.5pc for Feb 1999

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.640	94.620	-0.020	94.650	94.610	18300	187066
Jun	94.930	94.890	-0.050	94.940	94.880	28241	180489
Sep	95.050	95.030	-0.040	95.070	95.020	21439	176870
Dec	94.850	94.840	-0.030	94.870	94.830	4812	145087
Mar	95.020	95.030	-0.010	95.050	95.000	8637	128540

Also traded on APT. All Open interest figs. are for previous day

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
94500	0.145	0.425	[illegible]	0.025	0.035	0.085
94625	0.055			0.070		
94750	0.025	0.240	0.405	[illegible]	0.100	0.125
94875	0.010			0.265		
95000	0.005	0.110	0.250	0.385	0.220	0.220
95125	0			0.505		

Est. vol. total, Calls 12235 Puts 13675. Previous day's open int., Calls 533380 Puts 380400

EMS EUROPEAN CURRENCY UNIT RATES

Feb 9	Euro cen. rates	Rate against Euro €	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	353.109	322.530	+0.3	-8.65	9.11	68
Denmark	7.46038	7.4355	+0.0001	-0.33	0.80	2
NON EMU MEMBERS						
UK	0.653644	0.69110	+0.0023	5.73	-5.73	-

Euro central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Euro; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Euro central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Euro central rate. 17/9/92 Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Feb	CALLS Mar	CALLS Apr	PUTS Feb	PUTS Mar	PUTS Apr
1.630	1.14	1.91	2.51	0.10	0.97	1.65
1.640	0.47	1.30	2.05	0.48	1.41	2.11
1.650	0.20	0.87	1.61	1.09	1.94	2.57

Previous day's vol., Calls 32 Puts - . Prev. day's open int., Calls 488 Puts 1,889

■ PHILADELPHIA SE D-MARK OPTIONS DM62,500 (cents per DM)

Strike Price	CALLS Feb	CALLS Mar	CALLS Apr	PUTS Feb	PUTS Mar	PUTS Apr
0.575	0.47	0.85	1.17	0.06	0.35	0.57
0.580	0.17	0.56	0.89	0.24	0.53	0.79
0.585	0.07	0.36	0.65	0.60	0.85	1.06

Previous day's vol., Calls - Puts 5 . Prev. day's open int., Calls 393 Puts 3,455

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.98	94.98	-	-	-	28,752	436,807
Jun	94.95	94.98	+0.03	-	-	82,930	440,220
Sep	94.92	-	-	-	-	109,578	428,880

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.05	-	-	-	-	43	2,342
Jun	95.00	-	-	-	95.70	6	409

All Open interest figs. are for previous day

BASE LENDING RATES

	%
Adam & Company	5.50
Allied Irish Bank (GB)	5.50
●Henry Ansbacher	5.50
Banco Bilbao Vizcaya	5.50
Bank of Cyprus	5.50
Bank of Ireland	5.50
Bank of India	5.50
Bank of Scotland	5.50
Barclays Bank	5.50
Brit Bk of Mid East	5.50
●Brown Shipley & Co Ltd	5.50
Citibank NA	5.50
Clydesdale Bank	5.50
The Co-operative Bank	5.50
Coutts & Co	5.50
Cyprus Popular Bank	6.00
Duncan Lawrie	5.50
Exeter Trust Limited	6.50
Financial & Gen Bank	6.00
●Robert Fleming & Co	5.50
Habib Bank AG Zurich	5.50
Heritable & Gen Inv Bk	5.50
C. Hoare & Co	5.50
●SG Hambros Bank & Trust	5.50
Hongkong & Shanghai	5.50
Investec Bank (UK) Ltd	5.50
Julian Hodge Bank	5.50
●Leopold Joseph & Sons	5.50
Lloyds Bank	5.50
Midland Bank	5.50
NatWestminster	5.50
●Rea Brothers	5.50
Royal Bk of Scotland	5.50
Scottish Widows Bank	5.50
●Singer & Friedlander	5.50
Smith & Williamson	5.50
Sun Bank	5.50
TSB	5.50
United Bank of Kuwait	5.50
Unity Trust Bank Plc	5.50
Whiteaway Laidlaw	5.50
Yorkshire Bank	5.50

● Members of London Investment Banking Association

COMMODITIES & AGRICULTURE

INRO WITHDRAWAL COULD LEAD TO DEMISE OF THE ORGANISATION

Thailand pulls out of rubber agreement

By Paul Solman in London and Ted Bardacke in Bangkok

The pact between the world's leading rubber producers faced collapse yesterday, after a decision by Thailand to abandon the agreement.

The Thai cabinet yesterday approved withdrawal from the International Natural Rubber Organisation (Inro), after criticising the organisation for failing to act decisively to support rubber prices.

Rubber industry insiders said Thailand's decision was likely to sound the death knell for Inro, one of the last international price support agreements outside the oil industry. The move could also add further downward pressure to rubber prices as the Thai government is planning to create its own intervention mechanism, which is likely to lead to a rise in Thai rubber production.

The step by the world's biggest natural rubber producer follows a similar move by Malaysia, the third largest producer, last year. Indonesia, the second biggest producer, has said it will stay in Inro.

Inro maintains buffer stocks, buying rubber when prices fall and selling it when prices rise. However, its activities depend on funding by its members, which include the six leading natural rubber producers as well as the biggest consuming countries such as the US, Japan and China.

"Thailand supplies about 40 per cent of Inro's contributions from rubber producers, so it's difficult to see how the organisations could operate without it," one rubber industry official said yesterday.

Thai agriculture officials have long criticised Inro's policies, claiming they are prejudiced against larger producers and do not create an appropriate floor price. Its decision to quit has been expected by the industry.

Malaysia, which levelled similar criticisms, is due to leave Inro with effect from October, after giving a year's notice.

Thailand is also required to give a year's notice, though one industry official suggested Inro might simply decide to wind up at its next meeting in April.

Officials said Thailand was unlikely to make any more contributions to Inro's buffer stocks.

It also intends to ask for a return of its deposits with Inro, which total about $64m. The money will be redirected towards intervention in the Thai domestic market as part of a plan to restructure the rubber industry.

The plan, including an intervention mechanism, will be presented to the cabinet next week and will seek to double Thailand's Bt59bn ($1.59bn) in rubber export revenue over the next four years.

The intervention mechanism will help officials target areas in the southern part of the country where rubber farmers are a potent political force. Unlike Malaysia, with its huge rubber plantations, most of Thailand's rubber is produced by small farmers.

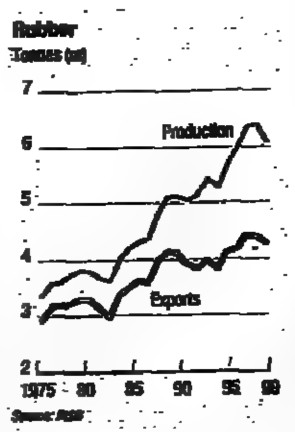
The government buys rubber at Bt21.5 a kg of Grade A rubber and expects to spend about Bt4bn in the market this year. It holds about 97,000 tonnes and is understood to be negotiating sales with China and Japan for about two-thirds of that.

The intervention is likely to spur a 4 per cent increase in production by Thai farmers this year. It could also lead to Thailand building up even larger stocks of natural rubber which may have an effect on world prices, traders said.

"Thailand's decision must be bearish for the rubber market and for prices," said Andrew Hamilton of the Commonwealth Development Corporation, which finances and manages businesses in emerging economies.

"As an investor in west African rubber we would be concerned at any action that would decrease prices. However, prices are so low now that some plantation business must be losing money, and lower prices are likely to lead to production cuts."

Along with most other commodities, rubber prices have already been suffering from the effects of the economic problems in Asia.



Price of crude oil fails to firm

MARKETS REPORT

By Paul Solman and Gillian O'Connor

World crude prices were weak again yesterday after a new forecast of oil consumption this year.

In its monthly report, the International Energy Agency said global oil demand would rise by only 1.4 per cent or 1m barrels a day (bpd) to about 75m bpd this year. The agency cited weak economic conditions in developing countries.

In late trading on London's International Petroleum Exchange, the benchmark March contract for Brent blend was $10.17 a barrel against Monday's close of $10.16.

Brent managed a modest rally at the beginning of the year but has now given up $2 of its price at this time last month.

On the London Metal Exchange, the immediate result of the exchange's intervention to neutralise the supply squeeze in the lead market was that the cash price dipped below the forward price, thus restoring the conventional relationship between the two.

Otherwise base metal markets had a relatively quiet day after several days of rises. Nickel prices failed to react to a statement from the Russian Norilsk that the directors would be discussing possible nickel and copper production cuts at a meeting yesterday. Analysts said that earlier rumours that cuts were imminent meant that they were already factored in.

On the London International Financial Futures and Options Exchange, March robusta coffee futures slipped $2 to close at $1,719 a tonne in lacklustre trading. March cocoa was unchanged at $895 a tonne.

Australia and Japan closer to coal deal

By Stephen Wyatt in Sydney

Australian coal producers and Japanese power utilities are closer to agreeing to a new and lower contract for thermal coal prices for Japanese fiscal 1999, in spite of a breakdown in negotiations last Friday.

Initially the utilities were asking for a 13.5 per cent cut from the current US$34.50 a tonne, while the Australian thermal coal producers were pushing for a cut of around 10 per cent.

Now Chubu Power, the leading Japanese negotiator, is pushing for under $30 a tonne, while the Australian producers are seeking $30-$30.50, said Tex Report, a Japanese trade newsletter.

The negotiations over coal, Australia's largest commodity export earner, reflect a tough environment for the producers, which exported some A$3.79bn (US$2.5bn) in 1997/1998.

There are two divergent forces at work, says Clyde Henderson, coal analyst with AME Mineral Economics in Sydney.

Firstly, spot thermal coal prices in Europe have been as low as $20 a tonne fob (free on board) late last year. While they have recovered marginally towards $22 a tonne this month, the spot market remains at a dramatic discount to the current contract price of $34.50 a tonne.

The second issue is that there is little scope for further price cuts. Cash margins of thermal coal producers world-wide, even at the current $34.50 a tonne level, are very low and in many cases negative, said Mr Henderson.

The negotiations follow hard coking coal price negotiations late last year when coal producers agreed to an 18 per cent cut in 1999 contract prices.

In the past few weeks, semi-hard coking coal contract prices have also been cut by around 18 per cent.

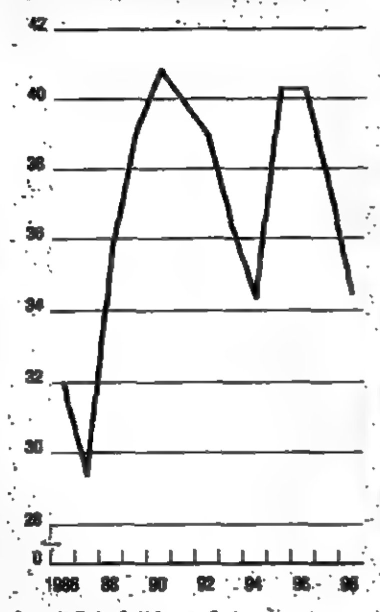
MIM, for its new Queensland based Oaky Creek semi-hards, agreed to a contract price of $35 a tonne, while Canada's Fording Coal agreed to $32.64.

One coal analyst said semi-soft coals, mainly out of the Hunter Valley, would normally be priced about A$2 a tonne lower than the semi-hards and thermal coals about A$1 per tonne lower than semi-softs.

This is why the industry is forecasting a thermal coal price around $29.50 a tonne. "We have no reason to alter our forecast of the past few months of $29.60 a tonne," said Clyde Henderson.

Japanese put damper on Australian coal

Steam coal benchmark price ($ per tonne fob)



Source: McCloskey Coal Information Services

LME acts over squeeze on lead

By Gillian O'Connor, Mining Correspondent

The London Metal Exchange stepped into the market yesterday to neutralise a supply squeeze in lead, the second public intervention this year.

The move to preserve order in the market is also the second since the publication last year of its market aberrations paper, which set out the ground rules on prevention of price distortion. In January, the exchange moved to prevent a supply squeeze in aluminium.

The move prompted worries among some market participants that regulatory action would drive business away from the exchange. Others were surprised that the exchange had taken so long to act although they said that it had done the right thing in the end.

The exchange announced yesterday that traders who had sold lead short and "are unable to effect physical delivery and/or unable to borrow metal at the cash price, shall be able to defer delivery without penalty until 17 February 1999".

The special committee established to review developments in the lead market took account of the fact that "total nearby positions exceed available stocks".

The basic problem is that a single trader now controls over 90 per cent of LME lead stocks. LME guidelines say that in such a case, the "dominant position holder, whether or not a member of the Exchange, should be prepared to lend, if asked, at no more than the cash price. In this particular instance, the dominant position holder, who is not a member of the Exchange has indicated that it is not prepared to do so".

Market sources believe that the reason the exchange chose February 17 as the date to which delivery can be deferred is that the trader squeezing the market will have unwound its positions by that date.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

Precious Metals continued

GRAINS AND OIL SEEDS

SOFTS

MEAT AND LIVESTOCK

ENERGY

PRECIOUS METALS

LONDON TRADED OPTIONS

LONDON SPOT MARKETS

FREIGHT (BIFFEX) LIFFE ($10/index point)

Feb	835	+5	835	822	17	206
Mar	865	+5	870	840	[illegible]	152
Apr	925	+1	915	915	15	1,011
Jul	800	–	800	800	5	602
Oct	925	–	925	912	–	381
Total					65	2,371

	Close	Prev
BFI	805	802

ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Mar	100.20	–0.95	100.60	99.50	2,289	14,040
May	98.45	–0.86	99.40	98.00	1,165	7,898
Jul	97.75	–1.50	99.20	97.75	205	3,191
Sep	98.60	–0.55	98.60	98.60	12	602
Nov	98.00	–0.98	–	–	4	625
Jan	98.00	–1.30	98.00	98.00	–	340
Total					3,776	27,057

PULP AND PAPER

PULPEX DAILY (US$; 24 tn dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	400.50	–3.25	401.75	400.50	21	373
Jun	425.00	–4.25	428.00	424.75	[illegible]	385
Total					46	758

FUTURES DATA

All futures data supplied by CMS.

VOLUME DATA

Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

Reuters (Base: 18/9/31 = 100)

Feb 9	Feb 8	month ago	year ago
1447.4	1446.5	1514.7	1729.8

CRB Futures (Base: 1967 = 100)

Feb 8	Feb 5	month ago	year ago
190.25	190.50	–	–

GSCI Spot (Base: 1970 = 100)

Feb 8	Feb 5	month ago	year ago
133.10	133.04	138.75	171.85

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+3,025	to	409,525
Aluminium alloy	–1,000	to	33,080
Copper	+1,075	to	609,625
Lead	+1,575	to	107,000
Nickel	–108	to	66,054
Zinc	–1,300	to	388,400
Tin	–60	to	7,270

Tea from the Tea Brokers' Association Mombasa. There was improved and strong demand at dearer rates. Brighter BP1s advanced by 5-10 cents; neater mediums and lower mediums were firm to 5 cents dearer but poorly sorted types were easier. Plainer BP1s gained 5-10 cents. Brighter and medium PF1s appreciated by 5-12 cents while lower mediums opened easier but were dearer as the sale progressed; plainer sorts were dearer by 5-12 cents. Brighter Pdusts were irregularly dearer with mediums up by 10-15 cents; lower mediums were progressively dearer by 5-25 cents. Plainer Pdusts were a strong feature with price gains of 10-30 cents.

JOTTER PAD

CROSSWORD

No.9,910 Set by DOGBERRY

ACROSS

1 Many make amends having turned pub into tomb (8)
5 Found to have been copied (6)
9 Dishonest person on order gets back on track (8)
10 Man not initially approaching retirement? (6)
11 Having reason to look to the main thrust in charge (8)
12 Screen displaying stream in empty gorge (6)
14 Play the part in jaded version of Hanging Rock (10)
18 "Mad Emperor Pan" – not an alias! (6,4)
22 Extremes of Christian charity divided and split (6)
23 Awkward point in redesigned rotunda (8)
24 Cultivatin' fruit (6)
25 National type of pastry involving one instrument for rolling it (8)
26 Most of Kew's in flower as may be expected (6)
27 Dole out lines on church or its yard (8)

DOWN

1 Fair but heartless lady to arrive first (6)
2 Youth gains point over maturity (6)
3 Party of undesirables drinking hogshead (6)
4 Uncultured Greek character first in the queue (10)
6 Staunch Communist seat of learning? (8)
7 Minister's man having been prostrate (8)
8 Stranger interrupting the German, a frail old soul (8)
13 Her father dug for fruit (10)
15 Disembodied particles one's wanting to reassemble (8)
16 Curtsey and make connection about love bird (8)
17 Phone again about compiler needing corrective (8)
19 Born to be sheepish or bullish? (6)
20 Wish to hurt vermin to a degree (6)
21 Roman god in chill grip of folly (6)

Solution 9,909

Price of crude oil fails to firm

MARKETS REPORT

CROSSWORD

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

JERSEY
(FSA RECOGNISED)

AIB Fund Managers (CI) Ltd

PO Box 468 St Helier Jersey 01534 883000

AIB Govett (Channel Islands) Limited (1000)F

Barclays International Funds

PO Box 152, St Helier, Jersey CI 01534 812700

Gartmore Fund Managers Intl Ltd (z)

PO Box 276, 45 La Motte St., Jersey

Mercury Asset Mngt Channel Islands Ltd.

Midland Bank Fund Managers (Jersey) Ltd

Minerals, Oils Res. Shrs. Fd. Inc.

Murray Johnstone (Jersey) Limited

Rowton Fund Managers (CI) Ltd

Northgate Unit Tst. Mngr. (Jersey) Ltd

Royal Bank of Scotland Fund Managers (CI) Ltd

Royal Bk of Scotland Fd Mngrs (Jersey) Ltd

Dresdner RCM Select Fund (z)

EFG Probus Asset Management S.A.

Fidelity Funds

Jupiter Tyndall Global Fund

Lloyds Bank Luxembourg

LUXEMBOURG
(FSA RECOGNISED)

ABN AMRO Funds (z)

JERSEY
(REGULATED)(**)

LUXEMBOURG
(REGULATED)(**)

ACM Offshore Funds

INVESCO International Limited

Scudder Global Opportunities Funds - Contd.

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Continued

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Continued

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

SUPPORT SERVICES

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

AIM - Continued

[illegible]

PROPERTY - Continued

[illegible]

SUPPORT SERVICES - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

[illegible]

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the UK Official list.

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols relating to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent (except where payment is due after 6/4/99 when no tax credit will be applied) and allow for the value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(iv) Overseas Incorporated Companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish Incorporated non-listed companies.
- ‡ Price at time of suspension
- , Indicated dividend yield after pending scrip and/or rights issue
- ✦ Merger bid or reorganisation in progress
- § Forecast dividend yield, p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

[illegible]

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1570 a year for each security shown, subject to the Editor's discretion

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 50p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request. Call 0171 873 4378 for more information on FT Cityline.

For Retail Price Index details call 0891 43 0085

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

LONDON STOCK EXCHANGE

Footsie posts fifth straight fall despite early rally

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

An early attempt to drive the front-line and second-rank UK stocks higher yesterday lasted for little more than an hour.

At the end of the session, the two senior indices, the FTSE 100 and 250, were left with more worryingly large losses - in the case of the FTSE 100 for the fifth consecutive session - with sentiment given another battering by Wall Street's latest dismal performance.

The market's benchmark index, the FTSE 100, struggled manfully in the early part of the day, pushing up 33.2 to 5,868.1, amid hopes that the recent sell-off had run its course.

The index eventually settled a net 55.8 lower at 5,779.9, extending the decline over the past five sessions to 233.1 or 3.9 per cent. The FTSE 250 lost another 27.9 to 5,177.9.

The FTSE SmallCap stood alone as a winner in the FTSE stable, climbing a further 4.9 to 2,222.8, taking its run of winning performances to 11 sessions.

Dealers said the market's reversal had taken place against a sequence of warnings of overrated internet stock prices in the US from luminaries such as Alan Greenspan, chairman of the US Federal Reserve; Bill Gates, chairman of Microsoft; and Rupert Murdoch, the global media giant.

And warnings that Wall Street could be facing a 5 to 10 per cent decline in the short term, according to Ralph Acampora, the highly rated technical analyst at Prudential Securities, brought additional pressure to bear on global markets.

One marketmaker, reeling after the latest decline in the market, said sentiment "still feels ropey, but it could all change on a sixpence. The new money story remains intact and another bid would cause another surge."

Adding to the bad news for London was some slightly disturbing information on corporate earnings, specifically from BOC, the industrial gases group.

British Airways posted its first-ever quarterly pre-tax loss, albeit widely expected, and Reuters came in with reduced full-year numbers.

Those results were interpreted by the market as possibly heralding a poor preliminary results season for UK stocks.

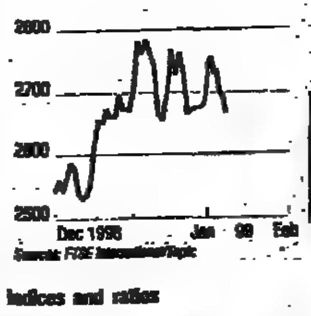
The results season gets up full steam next week when no less than nine FTSE 100 constituents report.

And there was a real concern that the banks' results season, which commences on Friday with numbers from Lloyds TSB - the biggest of the UK banks - could provide the trigger for more downside on the FTSE 100 in which banks account for more than 15 per cent.

"Lloyds might well be the turning point for the market. If Lloyds is bad news then the whole sector is going to suffer. If it is good news, then the banks, and the market, should rally," said one marketmaker.

The UK strategy team at BT Alex Brown said: "London could eventually break through to new highs this year, but it will be a struggle, punctuated by sharp market setbacks, which will result either from external events such as further financial crises in emerging markets, or in reaction to profits downgrades. It is still too early to rush into cyclical recovery stocks."

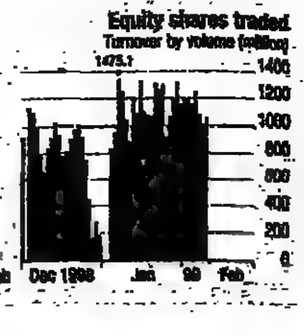
FTSE All-Share Index



Source: FTSE International/Tapic

Equity shares traded

Turnover by volume (million)



Indices and ratios

FTSE 100	5779.9	-55.8	FT 30	3541.1	-42.9
FTSE 250	5177.5	-27.9	FTSE Non-Fins p/e	23.74	23.75
FTSE 350	2758.1	-24.4	FTSE100 Fut Mar	5785.0	-70.0
FTSE All-Share	2570.65	-22.20	10 yr Gilt yield	4.47	4.51
FTSE All-Share yield	2.90	2.87	Long gilt/equity yld ratio	1.53	1.56

Best performing sectors

1 Tobacco +3.2
2 Pharmaceuticals +2.2
3 Extractive Industries +2.0
4 Oil Exploration & Prod +1.7
5 Water +1.3

Worst performing sectors

1 Chemicals -2.7
2 Telecommunications -2.5
3 Life Assurance -2.5
4 Engineering -2.4
5 Food Producers -1.9

SB bids to stay solo

COMPANIES REPORT

By Peter John, Joel Kibazo and Martin Brice

SmithKline Beecham shot towards the top of the Footsie performance charts as protestations that the company would remain independent were shrugged aside by the market.

The company brought forward its figures and announced it was selling two of its divisions. And chief executive Jan Leschly used the chance to present a strategy aimed at reinforcing the company's solo status.

He said pointedly: "Discussions with Glaxo and AHP are behind us ... We are not talking to anyone about mergers and we don't plan to talk to anyone."

However, investors were inclined to disagree. Many believe the need to acquire critical mass within the industry has intensified since Zeneca announced it was merging with Astra of Sweden. And some suggest Mr Leschly has become increasingly isolated.

SmithKline gained 33 to 831½p on turnover of 15m while Glaxo Wellcome, the favoured partner, rose 46 to £19.49. Glaxo also announced it had received approval in Sweden to market Relenza for the treatment of influenza A and B, the first regulatory approval worldwide.

One dealer said the market capitalisations of the two companies were within a whisker of the ratio needed to carry out merger accounting without having to depreciate goodwill.

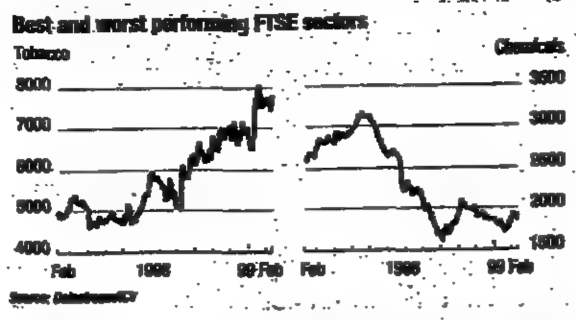
By comparison, Zeneca fell 41 to £25.78. All three UK pharmaceuticals majors are exposed to the Dow Jones Industrial Average, which was off more than 90 points when London closed.

In extractive industries, bid speculation helped mining group Lonrho resist the poor market trend. The shares jumped 35 or nearly 10 per cent to 390p, making it the best performer in the FTSE 250.

With English China Clays having accepted a £756m bid from French rival Imetal, attention has firmly moved to Lonrho, long seen by some as a possible bid target. One sector specialist said yesterday: "With English China gone, people are asking why not Lonrho."

Buying attention has shifted in favour of cyclical stocks such as Lonrho in recent sessions, dealers said. Buyers had also been attracted by the improving price of platinum.

Best and worst performing FTSE sectors



Source: Datastream/ICV

Exceptional losses associated with the company's programme of disposals and demergers saw it report a fall in profits last month from £196m to £84m.

The hunt for value in the extractive industry shifted to Billiton as several brokers recommended the stock. Among them, Paribas argued for a switch out of Rio Tinto, which it sees as remaining heavily exposed to depressed coal, copper and iron ore prices.

Billiton lifted 4½ to 130½p. Rio continued its strong run in early trading but backed to a closing gain of 9 at 799p.

Value plays also benefited hard-hit water stocks, with Severn Trent and Thames Water, both on a gross yield of 4.5 per cent at the start of trading, rising 22 to 942p and 14 to £11.13.

Scottish and Southern Energy lifted 7½ to 615p with Charterhouse recommending the shares up to 700p and beyond. Merrill Lynch reiterated its "accumulate" stance.

Reuters Group came out with figures that seemed at first to be at the top of the range of analysts' forecasts. But an exceptional gain knocked them back to the bottom and a mix-up with the stock exchange meant the electronic news organisation was unable to get its figures on its own screens. The upshot was that the shares fell 33 to 866p.

Disappointing figures from BOC saw shares in the gases group shed 49 to 814p.

And Johnson Matthey, which joined the chemicals sector recently, lost 20½ to 452½p ahead of an analysts' trip to the company's US operations.

Telecom issues, which started the year strongly, were out of favour yesterday. Analysts blamed sector rotation and one specialist admitted: "The truth is there is still value in some stocks, but the sector is no longer a must buy."

BT favoured

Chris Godsmark at Henderson Crosthwaithe said: "The strategy has to be to differentiate and pick winners." He favours British Telecommunications, which fell 27 to 908p, Cable and Wireless, 14 off at 802p, Vodafone Group, whose shares tumbled 19½ to £10.57, and Energis, 10 lower at 482½p.

Henderson remains cautious on Orange, which was also unloved. The shares fell 34 to 817p.

A boardroom split that yesterday prompted the sudden departure of the chief executive and finance director from Vaux Group led to fresh bid talk. The shares eased 2 to 273½p.

The company said Peter Catesby, managing director of the group's Swallow Hotels, had been appointed chief executive of the brewing and hotels company after Martin Grant and finance director Neal Gossage left the company with immediate effect and ceased to be directors.

Last year Vaux terminated talks with Stakis, a possible bidder for the group. Earlier this week, gaming and hotels company Ladbroke Group tabled a £1.16bn agreed bid for Stakis.

Stakis shares edged ½ forward to 157½p after trade of 14m, while those of Ladbroke declined 5¾ to 263¼p.

Safeway topped the FTSE 100 performance table, adding 13½ at 290p, boosted by Monday's trading update.

British Airways was one of the few Footsie stocks to move against the falling tide of the market as it rose 7¼ to 388¾p following third-quarter results. The stock saw brisk trade of 9.6m.

Cigarette makers rose strongly in reaction to winning the first round of a high court battle with 52 cancer victims. Gallaher gained 16½ to 431p and Imperial Tobacco 24 to 711½p. BAT rose 17½ to 631p.

Software group Lynx was off 6 at 209p after it revealed itself to be behind the bid approach to fellow software company Tetra, which was off a penny at 277½p.

The hunt for the next small company to be bid for seems to have alighted on steelwork group Wescol, which has risen by a third in a week amid some of the heaviest volume for some months.

A likely predator could be structural steelwork group Severfield-Reeve, which was unchanged at 287½p. Wescol, closed up 1¼ at 40p.

FT 30 INDEX

	Feb 9	Feb 8	Feb 5	Feb 4	Feb 3	Yr ago	*High	*Low
FT 30	3541.1	3584	3601	3629.1	3619.3	3437.8	4084.8	2790.5
Ord. div. yield	2.90	2.93	2.92	2.88	2.90	3.14	4.22	2.72
P/E ratio net	22.65	22.88	22.97	23.26	23.12	22.57	25.41	15.80
P/E ratio nil	22.58	22.79	22.88	23.15	23.03	NA	25.19	15.71

FT 30 since compilation: high 4084.8 [illegible]; low 49.4 [illegible]. Base Date: [illegible]

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3584.0	3585.4	3552.8	3544.5	3554.5	3552.8	3552.2	3537.5	3586.6	3535.6

STOCK MARKET TRADING DATA

	Feb 9	Feb 8	Feb 5	Feb 4	Feb 3	Yr ago
SEAQ bargains	69,838	74,772	74,587	73,986	77,598	na
Equity turnover (£m)†	-	na	4176.2	5298.2	4639.5	na
Equity bargains†	-	na	84,651	84,046	86,474	na
Shares traded (m)†	-	na	1109.8	1264.2	1172.9	na
Total market bargains‡	-	na	na	74,063	77,580	-
Total turnover (£m)‡	-	na	na	8294.0	5766.7	-
Total shrs traded (m)‡	*1067.8	na	na	1221.1	1433.1	-
Tradepoint turnover (£m)	37.8	28.8	28.5	36.8	33.5	18.5
Tradepoint shrs traded(m)	14.0	13.9	12.3	12.6	6.9	11.5

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	502	Total Highs	35	Total contracts	27,314
Total Falls	987	Total Lows	32	Calls	14,618
Same	1,384			Puts	12,696

Feb 9 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5892.0	5785.0	-70.0	5880.0	5750.0	25158	169914
Jun		5790.5	-71.0			0	18168
Sep		5830.0	-73.0			0	1651

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		5178.0	-22.0			0	5695
Jun		5195.0	-22.0			0	300

FTSE 100 INDEX OPTION (LIFFE) (*5778) £10 per full index point Feb 9

	5625 C	5625 P	5675 C	5675 P	5725 C	5725 P	5775 C	5775 P	5825 C	5825 P	5875 C	5875 P	5925 C	5925 P	5975 C	5975 P
Feb	208½	59½	201	74½	165	90½	136	111½	107½	134½	84½	161½	65	193	48½	227
Mar	346	188½	316½	205½	287½	225	260	247½	229	287½	198½	289	178	317½	158½	349½
Apr	443	253	411½	276	380	298½	349	317½	317½	338	286	359	258	384	234½	412½
May	506	324	466½	345	453	365	422	381½	394	408½	369	428½	339	448	307½	476½
Jun†	557½	378½			505	415			459	458½			391½	501		

Calls 2,448 Puts 1,077

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point Feb 9

	5600 C	5600 P	5650 C	5650 P	5700 C	5700 P	5750 C	5750 P	5800 C	5800 P	5850 C	5850 P	5900 C	5900 P	5950 C	5950 P
Feb	215	63½	179½	78½	146½	97	121½	120	95	143½	73	171½	55	203	40½	238
Mar	330½	181½	299½	210	270½	230½	241½	251½	214½	274	191	300	167½	326½	148½	354
Apr	418½	260	386	264	354½	303	325½	320½	298	345½	271½	369½	247	393½	222½	418½
Jun	538	391½			487	424			440½	465½			395½	509½		
Sept	705	495			661½	541½			618½	575½			580	621		

Calls 3,890 Puts 4,088 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m)	1998/99 High	1998/99 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	3.92	101½	98	Do Cap	98	-	-	-	-	-
-	F.P.	15.9	100	90	Close Bros Dev VCT	100	-	-	-	-	-
-	F.P.	38.9	7½	7	Reader Properties	7	-	-	-	-	-
§	F.P.	47.1	100½	96½	Jupiter Enhanced	96½	-¼	-	-	-	-
§	F.P.	47.4	110	103½	Do Zero Div Pf	109½	-	-	-	-	-
§	F.P.	15.8	100	100	Singer&Fried AIM VCT	100	-	-	-	-	-
-	F.P.	27.9	98	97½	[illegible]	97½		10.8	-	10.1	-
-	F.P.	8.09	9	4½	Do Cap	5	-	-	-	-	-
-	F.P.	31.0	117½	102	Do Zero Div Pf	116½	-	-	-	-	-
-	F.P.	-	104	98	Do Equity Units	100	-	-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998/99 High	1998/99 Low	Stock	Closing price p	+or-
48	Nil	26/2	¾pm	¾pm	Ambient Media	¾pm	

pm premium.

FTSE GOLD MINES INDEX

	Feb 9	% chg on day	Feb 8	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (28)	881.84	0.5	878.74	1126.11	1.82	987.81	1381.87	781.88
Regional Indices								
Africa (9)	1038.80	0.4	1034.80	1192.05	4.13	1052.07	1498.04	795.82
Australasia (8)	1197.30	-0.9	1208.44	1579.94	2.81	1208.80	1800.53	815.50
Americas (11)	932.85	0.9	924.48	1070.82	0.78	935.40	1317.41	647.69

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stg Feb 9	Day's chge%	Euro index	£ Stg Feb 8	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5779.9	-0.9	6522.7	5834.9	5613.3	2.78	2.39	1.90	23.60	2.84	2560.17
FTSE 250	5177.5	-0.5	5842.9	5205.4	4987.0	3.24	2.79	2.14	18.08	6.39	2255.26

TRADING VOLUME

Major Stocks yesterday.

FTSE INTERNATIONAL

هكذا من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Feb 9) 1 € = 13.7603 Sch

[illegible]

BELGIUM/LUX (Feb 9) 1 € = 40.3399 Frs

[illegible]

FINLAND (Feb 9) 1 € = 5.94573 Mk

[illegible]

FRANCE (Feb 9) 1 € = 6.55957 Frs

[illegible]

GERMANY (Feb 9) 1 € = 1.95583 Dm

[illegible]

IRELAND (Feb 9) 1 € = 0.787564 Punt

[illegible]

ITALY (Feb 9) 1 € = 1936.27000 Lira

[illegible]

NETHERLANDS (Feb 9) 1 € = 2.20371 Fl

[illegible]

PORTUGAL (Feb 9) 1 € = 200.482 Esc

[illegible]

SPAIN (Feb 9) 1 € = 166.386 Pta

[illegible]

EUROPE (NON-EMU)

CZECH REP (Feb 9 / Koruna)

[illegible]

DENMARK (Feb 9 / Kr)

[illegible]

GREECE (Feb 9 / Drachma)

[illegible]

HUNGARY (Feb 9 / Forint)

[illegible]

NORWAY (Feb 9 / Krone)

[illegible]

POLAND (Feb 9 / Zloty)

[illegible]

SWEDEN (Feb 9 / Kronor)

[illegible]

SWITZERLAND (Feb 9 / Frs)

[illegible]

TURKEY (Feb 9 / TK Lira)

[illegible]

PACIFIC

JAPAN (Feb 9 / Yen)

[illegible]

AUSTRALIA (Feb 9 / Aust$)

[illegible]

HONG KONG (Feb 9 / H.K.$)

[illegible]

INDONESIA (Feb 9 / Rupiah)

[illegible]

MALAYSIA (Feb 9 / MYR)

[illegible]

NEW ZEALAND (Feb 9 / NZ $)

[illegible]

SINGAPORE (Feb 9 / S$)

[illegible]

SOUTH KOREA (Feb 9 / Won)

[illegible]

TAIWAN (Feb 9 / TW $)

[illegible]

THAILAND (Feb 9 / Baht)

[illegible]

AMERICAS

CANADA

TORONTO (Feb 9 / Can $) 4 pm close

[illegible]

MONTREAL (Feb 9 / Can $) 4 pm close

[illegible]

MEXICO (Feb 9 / Peso) 12.30 pm

[illegible]

AFRICA

SOUTH AFRICA (Feb 9 / Rand)

[illegible]

Prices supplied by Exshare. Notes: Prices on this page are as quoted on the individual exchanges and are last traded prices.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the *Faculty of Actuaries and the Institute of Actuaries.*

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY FEBRUARY 8 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY FEBRUARY 5 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	216.75	-0.4	196.82	155.79	221.88	221.23	-0.3	3.32	217.66	196.94	155.40	222.07	221.92	219.96	163.86	207.49
Austria (21)	176.68	0.2	160.44	126.99	159.59	159.59	0.5	2.08	176.35	159.59	125.93	158.79	158.79	253.73	165.27	201.08
Belgium (22)	404.15	-1.1	367.00	290.49	357.43	357.43	-0.8	1.85	408.84	369.93	291.90	360.36	360.36	446.95	273.20	275.09
Brazil (29)	108.75	3.6	98.75	78.17	111.33	375.33	5.6	6.19	104.84	94.95	74.93	107.07	355.43	289.34	89.32	227.58
Canada (113)	210.80	-0.5	191.24	151.37	215.59	226.78	-0.6	1.75	211.72	191.57	151.16	216.01	226.17	248.78	159.94	218.20
Denmark (34)	469.11	-0.9	425.99	337.18	480.23	421.74	-0.5	1.68	473.19	428.15	337.85	482.77	423.93	537.33	420.12	485.99
Finland (29)	608.26	1.4	552.95	437.20	674.74	674.74	1.8	1.68	599.80	542.71	428.24	663.11	663.11	661.25	312.12	314.13
France (73)	328.11	0.2	297.95	235.84	300.14	300.14	0.5	2.09	327.54	296.37	233.86	298.61	298.61	354.45	246.64	253.84
Germany (55)	268.30	-1.3	243.64	192.85	242.53	242.53	-1.0	1.36	271.81	245.94	194.06	244.87	244.87	325.61	226.35	243.81
Greece (36)	415.34	0.8	377.17	298.54	425.19	852.90	1.2	1.00	412.06	372.84	294.20	420.40	842.44	418.59	211.47	–
Hong Kong, China (66)	270.93	-0.8	246.03	194.74	277.35	259.55	-0.8	4.51	273.09	247.10	194.98	278.62	271.89	362.55	196.64	336.89
Indonesia (24)	47.37	-2.2	43.02	34.05	48.50	258.65	-0.8	1.18	48.42	43.81	34.57	49.40	260.86	64.52	19.04	54.36
Ireland (14)	542.62	-0.5	492.74	390.02	535.32	535.32	-0.1	1.79	545.27	493.37	389.31	536.12	536.12	605.85	396.15	449.10
Italy (53)	162.44	-2.1	147.51	116.76	208.82	208.82	-1.8	1.33	165.96	150.17	118.49	212.63	212.63	192.84	128.68	135.49
Japan (445)	100.00	-0.1	90.81	71.88	102.37	71.88	0.5	1.04	100.65	90.53	71.43	102.08	71.43	109.73	76.83	107.95
Mexico (29)	1150.27	0.0	1044.53	826.78	1177.52	12689.59	0.1	2.02	1149.78	1040.34	820.91	1173.05	12677.91	1733.73	787.15	1608.19
Netherlands (26)	493.81	-1.3	448.42	354.94	441.55	441.55	-0.9	2.14	500.25	452.63	357.16	445.79	445.79	562.73	394.92	428.05
New Zealand (18)	67.39	0.1	61.15	48.40	68.93	63.95	-1.3	4.57	67.28	60.88	48.04	68.65	64.77	77.84	45.68	74.68
Norway (37)	240.89	0.1	218.57	173.00	248.39	250.62	0.2	2.30	240.39	217.51	171.63	245.25	250.12	357.71	181.86	303.59
Philippines (22)	84.67	-2.2	78.88	60.86	86.67	168.25	-0.2	0.98	86.62	78.37	61.84	88.37	166.62	106.98	42.48	86.80
Portugal (18)	257.81	-1.5	234.11	185.37	314.51	314.51	-1.2	1.84	261.77	236.85	186.89	318.25	318.25	299.39	194.13	–
Singapore (40)	195.70	-1.9	177.71	140.66	200.34	152.40	-1.7	1.86	199.44	180.45	142.39	203.47	155.09	246.74	102.45	222.92
South Africa (35)	201.45	2.1	182.93	144.80	206.23	262.78	1.5	3.37	197.32	178.54	140.88	201.32	258.77	346.20	151.55	281.51
Spain (30)	376.91	-1.9	342.27	270.92	422.36	422.36	-1.6	1.91	384.36	347.78	274.42	429.26	429.26	435.19	290.81	307.66
Sweden (43)	536.93	-1.9	487.58	385.93	549.86	627.79	-1.2	1.86	547.34	495.24	390.78	558.42	635.54	628.19	379.18	495.39
Switzerland (30)	397.05	-1.4	360.55	285.39	406.45	349.81	-1.1	1.22	402.54	364.23	287.40	410.69	353.63	441.65	307.73	374.79
Thailand (31)	20.39	-3.8	18.52	14.66	20.87	29.22	-3.5	3.02	21.20	19.18	15.14	21.63	30.27	33.84	8.15	31.34
United Kingdom (201)	371.45	-0.7	337.31	266.99	380.25	337.31	-0.3	2.89	373.95	338.36	266.99	381.52	338.36	401.84	307.96	361.78
USA (613)	513.19	0.3	466.02	369.87	525.36	513.19	0.3	1.27	511.44	462.76	365.15	521.80	511.44	527.72	380.12	413.19
Americas (784)	455.69	0.3	413.81	327.54	466.49	388.72	0.3	1.31	454.23	410.99	324.30	463.42	385.48	467.90	347.59	374.31
Europe (722)	351.04	-0.9	318.77	252.32	359.36	327.03	-0.6	2.07	354.33	320.61	252.98	361.51	328.93	386.24	282.63	313.00
Eurobloc (341)	101.72	-1.0	92.37	73.11	99.52	99.52	-0.7	1.75	102.72	92.95	73.34	100.16	100.16	113.92	81.53	–
Nordic (143)	509.22	-0.8	462.41	366.02	521.29	516.34	-0.2	1.81	513.07	464.24	366.32	523.46	517.62	555.97	380.04	434.10
Pacific Basin (721)	107.32	-0.2	97.45	77.14	109.88	80.02	0.4	1.57	107.52	97.28	76.77	109.69	79.73	119.48	82.88	116.97
Euro-Pacific (1443)	208.59	-0.7	189.42	149.93	213.54	172.80	-0.3	1.92	210.10	190.10	150.00	214.35	173.33	221.79	166.00	198.74
North America (726)	492.79	0.3	447.50	354.21	504.47	493.45	0.3	1.29	491.26	444.50	350.75	501.21	491.93	506.43	374.92	400.71
Europe Ex. UK (521)	328.74	-1.1	298.52	236.29	336.53	311.95	-0.7	1.67	332.25	300.63	237.22	338.97	314.18	366.32	260.93	279.99
Europe Ex. Eurobloc (381)	95.65	-0.9	86.86	68.75	97.91	96.19	-0.5	2.41	96.49	87.31	68.89	98.45	96.68	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (180)	97.79	-1.3	88.80	70.29	100.11	95.45	-0.9	1.43	99.08	89.65	70.74	101.09	96.33	109.21	75.16	–
Pacific Ex. Japan (278)	179.06	-0.7	162.62	128.72	183.33	180.05	-0.7	3.63	180.40	163.23	128.80	184.05	181.25	216.94	128.28	202.67
World Ex. Eurobloc (1921)	105.32	0.0	95.63	75.70	107.81	103.80	0.2	1.58	105.28	95.26	75.16	107.41	103.60	108.05	83.09	–
World Ex. US (1649)	208.24	-0.7	189.10	149.68	213.17	177.95	-0.3	1.95	209.62	189.67	149.66	213.67	178.44	221.91	165.95	201.76
World Ex. UK (2061)	300.24	-0.1	272.64	215.80	307.25	268.57	0.1	1.44	300.42	271.83	214.49	306.50	268.31	311.48	238.11	281.11
World Ex. Japan (1817)	409.11	-0.1	371.51	294.06	418.80	401.23	0.0	1.65	[illegible]	370.66	292.48	417.95	401.26	427.98	320.58	350.75
The World Index (2263)	306.41	-0.1	278.25	220.24	313.67	274.99	0.1	1.59	306.79	277.59	219.04	313.00	274.84	318.51	242.36	269.62

CONSTITUENT CHANGE 8/2/99: Deletion: Anglo American Industrial Corporation (South Africa).

Emerging markets:

IFC investable indices

Dollar terms

Feb 08 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	760.06	-0.7	-4.7
Brazil	224.50	+2.7	-18.4
Chile	447.67	+0.9	-0.6
Colombia[1]	338.49		-23.0
Mexico	465.86	-0.0	+0.9
Peru[2]	132.79	+0.5	-1.2
Venezuela[3]	380.36	+0.5	-16.1
East Asia			
China[4]	21.73	+0.6	-17.0
India[7]	66.69	-1.1	+3.9
Indonesia[8]	22.03	-2.7	-9.0
Korea[9]	50.98	-1.5	-3.6
Malaysia	81.52	-6.5	-7.9
Pakistan[8]	80.06	+0.7	-15.3
Philippines	116.66	-2.3	-6.2
Sri Lanka[10]	73.19	-0.2	-11.1
Taiwan, China[6]	108.91	+5.6	-6.0
Thailand	57.22	-2.9	-9.4
Europe			
Czech Rep	44.56	-2.8	-12.2
Greece	741.33	+0.1	+19.7
Hungary[8]	287.54	-1.2	+2.5
Poland[12]	530.72	-1.6	+3.1
Portugal	292.68	-1.4	+0.2
Russia	23.22	+2.3	-1.0
Slovakia	45.20	+1.6	+3.7
Turkey[14]	147.10	+1.9	+0.5
Mideast/Africa			
Egypt	76.94	-1.2	+19.4
Israel	101.15	-0.8	-1.0
Jordan	227.02		+4.8
Morocco	173.39	-0.7	+3.4
S Africa[9]	137.74	+1.7	+10.0
Zimbabwe[10]	109.61	-2.4	+3.3
Regions			
Composite	184.41	+0.5	-1.3
Latin America	389.27	+0.8	-7.3
Asia	100.80	+0.5	-5.8
EMEA	122.90	+0.3	+7.6
Europe	180.45	-0.2	+7.1
Easto Europe	58.40	-0.6	+0.5
ME & Africa	57.94	+0.9	+6.1
Comp + Malay	186.26		-1.7
Asia + Malay	101.33	-1.0	-6.2

Base date: Dec 1988=100 except those noted which are (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1993; (7)Nov 5 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1996; (14)Dec 31 1992; (15)Aug 2 1995; (16) July 2 1993.
Latest indices were unavailable for this edition.

4 pm close February 9

NEW YORK STOCK EXCHANGE PRICES

1998/99 High	Low	Stock	Div	Yld. %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]										

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Brod, part of FT Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
U-new yearly low. P/E price-earnings ratio. vol- volume-new yearly high. x-ex-dividend or ex-rights. yld-yield. s-sales in full. § Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Feb 8	Feb 5	Feb 4	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9291.11	9304.24	9304.50	9643.32 (8/1/99)	7539.07 (31/8/98)	9643.32 (8/1/99)	41.22 (2/7/32)
Home Bonds	105.87	105.89	105.81	107.17 (8/12/98)	104.42 (11/5/98)	107.17 (8/12/98)	54.99 (1/10/81)
Transport	3209.25	3247.98	3247.14	3686.02 (16/4/98)	2345.00 (9/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	290.05	293.80	291.29	320.51 (8/10/98)	262.68 (8/1/98)	320.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high 9427.83 (9457.43) Low 9148.99 (9141.27) (Theoretical)
Day's high 9354.88 (9347.24) Low 9208.24 (9247.34) (Actual)

Standard and Poors	Feb 8	Feb 5	Feb 4	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1243.77	1239.40	1240.40	1279.64 (29/1/99)	927.69 (8/1/98)	1279.64 (29/1/99)	4.40 (1/6/32)
Industrials‡	1514.83	1506.44	1518.55	1551.85 (29/1/99)	1077.40 (8/1/98)	1551.85 (29/1/99)	3.52 (30/6/32)
Financial‡	125.41	128.27	127.14	147.88 (14/7/98)	95.80 (8/10/98)	147.88 (14/7/98)	7.13 (4/5/74)
Others							
NYSE Comp.	586.64	587.29	591.05	611.88 (8/1/99)	477.30 (8/10/98)	611.88 (8/1/99)	4.84 (25/4/42)
Amex Comp	702.36	700.26	707.12	753.67 (22/4/98)	553.75 (8/10/98)	753.67 (22/4/98)	324.20 (18/7/98)
NASDAQ Comp	2404.92	2373.82	2410.07	2510.09 (1/2/99)	1419.12 (8/10/98)	2510.09 (1/2/99)	54.87 (8/10/74)
Russell 2000	411.33	412.72	417.79	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	122.36 (7/12/90)

RATIOS

	Feb 5	Jan 29	Jan 22	Year ago
Dow Jones Ind. Div. Yield	1.85	1.84	1.87	1.89
	Feb 3	Jan 27	Jan 20	Year ago
S & P Ind. Div. yield	1.10	1.12	1.12	1.43
S & P Ind. P/E ratio	30.65	30.57	30.80	27.31

US DATA

MARKET ACTIVITY

Volume (million)	Feb 8	Feb 5	Feb 4
NYSE	705.678	872.030	854.400
Amex	28.651	28.280	32.072
NASDAQ	987.10	1010.50	1100.11

NYSE	Feb 8	Feb 5	Feb 4
Issues Traded	3,505	3,525	3,557
Rises	1,405	1,160	1,077
Falls	1,561	1,779	1,892
Unchanged	589	586	648
New Highs	25	25	42
New Lows	85	82	78

NYSE TRADING ACTIVITY
Volume : 705,400,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
AmOnLine	11,085,300	150	−6
Compaq	11,043,300	44⅛	+⅝
Citigrp	8,151,100	52⅛	−⅛
LucentTch	8,055,300	100%	+¾
MicronTech	5,984,300	72⅞	+2⅞
IBM	5,915,700	167	+1
SprPCS	5,686,100	32¼	+2%
AT&T	5,087,300	91⅛	+2⅛
EMC	4,615,500	99%	+1%
Disney	4,739,700	34	−¼

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
AMC Rr	52%	+6⅞	+15.0
LSI Lg	26⅞	+3%	+13.1
Bedyfd	25%	+2⅞	+11.7
CypAme	12%	+1%	+10.1
Downs			
Hunt Mfg C	10%	−1⅛	−9.5
Aeroflex	12%	−1	−7.5
EDS	45	−3%	−6.5
MDC Hldgs	18⅛	−1⅛	−6.1

NASDAQ TRADING ACTIVITY
Volume : 987,773,000

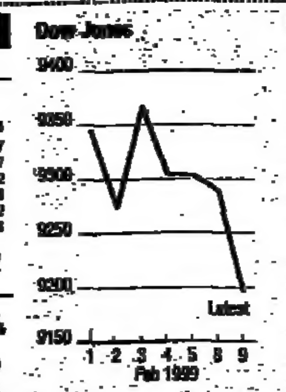
ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
DellComp	29,947,300	104⅛	+3%
Micsft	27,461,500	165%	+5%
Cisco Sys	22,942,700	101⅞	+⅝
ApplMat	18,209,200	67⅞	+6%
Intel	17,405,300	132	+4⅛
MCIWorld	9,394,000	79⅛	+2⅞
Yahoo	9,678,300	159%	−14%
Oracle	9,319,300	57%	+1⅞
SunMic	8,348,900	104%	+3%
3Com	7,552,400	34⅛	−%

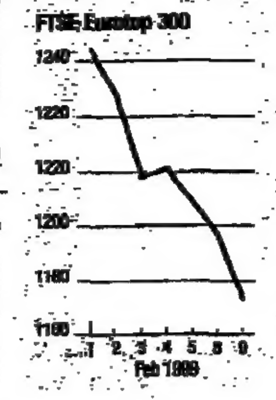
BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Vanther	12⅞	+1⅞	+15.6
Legato	52⅛	+6⅞	+14.9
SiliconVlp	17⅞	+2%	+14.0
LgPlace	13⅞	+1⅞	+13.6
Downs			
AmerTrade	80	−15%	−16.2
DoubleClk	80	−12%	−13.5
CMG Info	100	−15%	−12.4
Collagen A	10%	−1⅛	−12.0

Dow Jones



FTSE Eurotop 300



JAPAN

	Feb 9	Feb 8	Feb 5	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	13902.86	13932.49	13898.08	17264.3	12880	38915.9	85.25

Day's high: 14015.57. Day's low: 13885.78.

TOKYO TRADING ACTIVITY
Volume : 906,300,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Sakura	13,115,000	253	−3
Nomura	8,755,000	941	−14
MitsMat	8,280,000	210	−3
NSK	5,237,000	488	+12
NpStl	4,989,000	204	+2
BTokM	4,298,000	1300	−3
NKK	4,227,000	95	−3
FujiBk	4,108,000	470	+5
SumiTrB	4,051,000	311	+3
ShokJt	3,803,000	91	+9

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
ShokJt	91	+9	+11.0
Heiwa	1885	+165	+10.9
SonyME	5720	+410	+7.7
MiyFre	317	+21	+7.1
Downs			
Mycal	678	−47	−6.5
JntSvnM	142	−9	−6.0
Miyk'n	285	−18	−5.9
FjiaKs	880	−60	−6.8

FRANCE

	Feb 9	Feb 8	Feb 5	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	4038.49	4154.02	4147.30	4388.48	2862.54	4388.48	984.61

Day's high: 4165.58. Day's low: 4032.45.

PARIS TRADING ACTIVITY
Volume : 674,446,238

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Usinor	2,403,583	12.59	−0.21
FrTele	2,121,587	74.35	−3.4
RhonPA	1,578,148	42.5	−0.4
Alcatel	1,202,036	95.5	−1.2
Axa	1,187,184	118.1	−5.7
Alstom	1,141,313	23.2	+1.2
TotalB	1,043,055	97	−0.95
BNP	946,558	71.5	−3.5
Schndr	943,609	53.55	−4.05
ElfAqu	941,129	100.4	−4.6

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
GrpBTM	85	+5	+6.3
SommerA	26.9	+1.5	+5.9
Alstom	23.2	+1.2	+5.5
Tcmtp	78	+3.5	+4.7
Downs			
DassSy	37.2	−3.7	−9.0
Selta	48	−4.05	−7.6
Schndr	53.55	−4.05	−7.0
Equant	70.8	−4.7	−6.2

GERMANY

	Feb 9	Feb 8	Feb 5	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DAX	4904.35	5027.22	5090.77	6171.43	3896.08	6171.43	931.18

Day's high: 5085.48. Day's low: 4882.65.

FRANKFURT TRADING ACTIVITY
Volume : (a)

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Dt Bk	2,048,282	48.45	−0.65
DaimCh	641,289	88.6	−2.65
Bayer	529,981	31.1	−0.8
Luftha	353,583	18.5	−0.45
Commbk	252,538	25.8	−0.2
Siemens	335,718	61.1	−1
Dt Tel	302,638	35.8	−1.6
Merck	273,873	32	
Mnllg	251,584	18.6	−1.4
DrsdBk	242,480	33	−1.1

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Rheinml	21.3	+1.3	+6.4
NorBank	27	+1.5	+5.8
Fresenius	155	+7	+4.7
AGIndV	21	+0.9	+4.5
Downs			
GEA	22.5	−4.5	−16.7
GEA Pf	20.75	−2.25	−9.8
Mnllg	18.6	−1.4	−7.8
MeschAL	525	−28	−5.1

UK

	Feb 9	Feb 8	Feb 5	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
FTSE 100	5770.9	5834.9	5855.3	6179	4648.7	6179	986.9

Day's high: 5868.1. Day's low: 5768.5.

LONDON TRADING ACTIVITY
Volume : 1,087,800,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Shell T&T	30,992,000	341½	+1
Ladbroke	20,894,540	263¼	−5¾
Brit.Steel	17,992,820	128	−¼
Tesco	16,617,450	180½	−1¼
Smth.Bchm	15,779,770	831½	+33
Tomkins	14,430,960	237¼	−½
Shields	14,257,200	157½	+½
Vodafone	13,658,150	1057	−19½
Billiton	12,423,310	130½	+4½
Alld Domecq	12,346,920	495	−5

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Ransom	75½	+23	+43.8
Enviromed	11	+3	+37.5
Network Tch	26	+5½	+26.8
10 Grp.	1¼	+¼	+25
Downs			
ATA Grp.	83½	−16½	−15
Kingspan	150	−20	−11.8
Rea Grp.	35	−4½	−11.4
Inter Tech	140	−17½	−11.1

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	1243.80	1237.50	−0.70	1249.50	1234.00	88,525	382,400
Jun	1259.30	1248.50	−10.50	1259.30	1247.00	665	9,672

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	14010.0	13860.0	−150.0	14020.0	13860.0	21,112	191,870
Jun	13890.0	13720.0	−170.0	13890.0	13720.0	82	33,831

Open interest figures for previous day.

CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Feb	4175.0	4046.0	−127.0	4205.0	4038.0	88,716	118,021
Mar	4177.0	4053.0	−127.5	4211.0	4047.0	752	81,817
DAX							
Mar	5085.0	4958.0	−211.0	5120.0	4950.0	60,084	193,096
Jun	5099.5	4987.0	−215.0	5099.5	4983.0	2,193	58,384

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Feb	732.00	716.00	−13.50	732.00	715.50	40,232	184,850
Mar	721.50	713.50	−14.50	721.50	713.50	529	3,851
EUREX							
Mar	7080.0	6940.0	−122.0	7133.0	6940.0	33,998	132,286
Jun	7086.0	6996.0	−89.0	7087.0	6914.0	168	3,851

WORLD MARKETS AT A GLANCE

Country	Index	Feb 9	Feb 8	Feb 5	1998/99 High	1998/99 Low	% Yield	% P/E
India	BSE Sens.	3207.71	3183.84	3215.35	4280.96 21/4/98	2764.16 20/10/98		
	S & P CNX 500	842.20	838.44	850.01	815.82 21/4/98	552.88 20/10/98	na	na
Indonesia	Jakarta Comp.	402.88	398.69	405.55	554.76 2/2/98	256.83 21/9/98	2.46	20
Portugal	BVL 30	4938.57	5012.52	5065.04	6176.89 22/4/98	3598.06 2/10/98	2	27.8
	PSI 20	11406.76	11585.05	11708.37	14598.00 22/4/98	8114.91 2/10/98		
Russia	RTS	58.04	55.80	55.88	411.01 5/1/98	38.53 5/10/98	na	na

Hopes that proceeds from restructured debt could be re-invested in equities sent market sharply higher.

[illegible]

THE NASDAQ-AMEX MARKET GROUP

4 pm close February 9

[illegible]

AMEX

4 pm close February 9

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Hopes recede for more interest rate cuts

WORLD OVERVIEW

No news was not good news yesterday for stock markets, which continued to move lower as investors cast about for fresh buying incentives and again came up empty-handed, *writes Jeffrey Brown.*

If there was a theme to the day, it mostly centred on financials, which streamed determinedly lower as talk turned to the possibility of US and European interest rates not continuing to fall, as widely expected, but levelling out at present levels.

Europe's insurance leaders, a strong market lately as investors have sought out the sector's defensive merits, bore the brunt of the selling. ING and Axa-UAP came off more than 4 per cent while Munich Re tumbled 7 per cent.

According to the day's mix of rumours, the European Central Bank is losing patience with the slow pace of labour-market reform and is also worried about the weakness of the euro in spite of a better day for the currency yesterday. Falling German jobless figures were also an influence.

Coupled with another uncertain start on Wall Street, the interest rate uncertainty sent euro-zone equities into a tailspin in the latter half of the trading day. Frankfurt ended down 4 per cent – back below 5,000. Paris lost 2.8 per cent.

The improved showing for the euro and the decline in January unemployment in Germany revived hopes for a possible bottoming-out of the euro-zone economy, where recent data has shown broad weakness but a possible flattening trend.

A note from J.P. Morgan arguing the case for cyclical shares suggests that industrial confidence indicators have started to stabilise, helped by weakness in the euro, which has shed more than 4 per cent against the dollar since its inception just over a month ago.

The broker remains cautious on most cyclical sectors, but has lifted its weighting in construction and steels, and is tipping selected buys in oils and chemicals.

Asian markets had a mixed session but Hong Kong produced a number of good news stories.

Financial secretary Donald Tsang said he expected the Hong Kong economy to do "significantly better" this year after a 5 per cent contraction in 1998: and news of government moves to aid a troubled company sparked a rally for hard-pressed China shares.

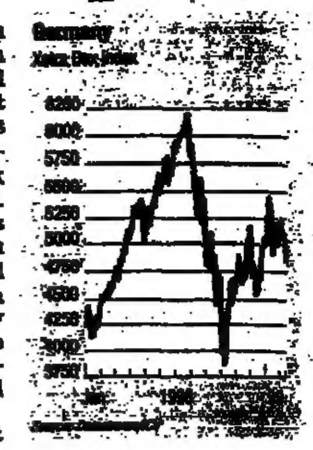
The red-chip index, which has racked up *losses of* around 40 per cent since November, surged 4.7 per cent after the government intervention in the indebted affairs of the Guangdong group.

MARKET FOCUS

Dax fears price of pay dispute

A downturn in the German economy, a wage dispute in the metal industry, and doubts about the centre-left government's intentions towards business are clouding the immediate outlook for Frankfurt's stock market.

Equity market analysts say the benchmark Xetra Dax index is also weighed down by a recent increase in German bond yields and by fears that Wall Street is due for a painful correction. Yesterday the index tumbled 4 per cent to 4,850.67.



The Dax ended last year at just over 5,000 and, in spite of a flurry of buying in early January, has since struggled to develop consistent upward momentum. Other continental European markets, notably Paris, Madrid and Milan, have outperformed Frankfurt this year.

The broadest reason for the Dax's lacklustre performance lies in the impact of last year's financial and economic turmoil in Asia, Russia and Latin America on German exports.

Even a star performer such as software group SAP was forced to issue a profits warning last month because of sales problems in Japan. Similar difficulties affected pharmaceuticals company Schering, which reported a 28 per cent slump last year in sales to south-east Asia.

Some companies, such as Volkswagen, compensated for problems in emerging markets with strong performances in North America and Europe outside Germany, but others, particularly in the chemicals and steel sectors, face more profound challenges in the shape of low world prices.

German banks are viewed as still at risk from global financial uncertainty and, in the case of Bayerische Hypo-Vereinsbank, from the fall-out from bad mortgage business in eastern Germany.

Utility stocks have suffered from government plans – albeit watered down since September – to end use of nuclear power in Germany.

Analysts say the Dax's prospects would darken if metal industry employers concede a big wage increase to the 3.4m workers represented by the IG Metall trade union, whose annual contracts set the benchmark for German industry. Employers are offering 2.3 per cent, plus an extra 0.5 per cent for those companies that can afford it, but IG Metall is holding out for 6.5 per cent.

Gerhard Grebe, an analyst at the investment house Julius Bär, calculates that a 3.5 per cent settlement would mean the earnings of Dax companies would rise by only 12 per cent this year instead of 15 per cent.

One positive factor for the Dax is the steady flow of money into investment funds, which helped bring the index off its low of 3,820 last October. New individual *retirement funds should* provide support for the market, according to Matthias Jörss, an analyst at BHF-Bank.

But Volker Bien, also of BHF-Bank, says: "The Dax is walking a tightrope against the background of the present strong dependence of German shares on the development of their US counterparts." He sees the Dax trading between 4,850 and 5,500 points for the near future.

Tony Barber

Techs suffer heavy sell-off as Dow falls

AMERICAS

Wall Street succumbed to broad-based weakness early in the session, with internet and other computer-related stocks bearing the brunt of the selling, *writes John Labate in New York.*

By early afternoon the Dow Jones Industrial Average was down 83.16 or 0.9 per cent at 9,207.95. That was off morning lows that had seen the blue-chip index down more than 100 points. The broader Standard & Poor's 500 index lost 15.87 or 1.3 per cent to 1,227.90.

The morning's weakness was an echo of the market's performance during the previous session.

On Monday, one of the most bullish analysts said the market could slump 5 to 10 per cent, helping to send stocks lower in morning trade before buyers stepped in to lift the market off its worst levels.

Downward momentum was stronger yesterday as the number of declining shares overtook advancers on the New York stock exchange by a margin of nearly 2 to 1.

Internet stocks sold off after news that Lycos, one of the leading internet portals, was being taken over in a stock deal by USA Networks. Lycos shares tumbled more than 22 per cent or $29 to $98¼ while USA Network gained 14.6 per cent or 5\frac{1}{16}$ to $43¼.

Other internet stocks sold off on valuation worries, sending the American stock exchange's internet index down 4.7 per cent or 33.80 to 685.10. America Online was the most active issue on the NYSE by midday, down 9\frac{1}{16}$ to 149\frac{1}{16}$.

The Nasdaq composite index fell under the selling pressure, losing 54.46 or 2.3 per cent at 2,350.46.

While stocks sank, bonds picked up ahead of the first of several planned Treasury auctions for the week. By early afternoon, the 30-year benchmark bond was ½ higher at 96$\frac{1}{16}$, sending the yield lower to 5.312 per cent.

Transport shares fell back, with AMR, parent to American Airlines falling a second day by $⅝ to $56⅝ after it said it would begin talks with its pilots, as the company announced a new round of cancelled flights due to a dispute.

Among Dow stocks, AT&T was off $3¼ to 87\frac{11}{16}$ and Citigroup lost $1⅝ at 50\frac{11}{16}$. Major retailers weakened as well, led by Wal-Mart, down 2\frac{11}{16}$ to $82¼.

TORONTO continued to move lower in early trading. Selling was across the board, with gold shares among the heaviest casualties. At noon, the 300 composite index was down 87.17 at 6,496.60.

Resource stocks came under severe selling pressure as bullion and base metal prices eased. In golds, Barrick fell C$1.35 to C$28.75 and Placer Dome shed 95 cents at C$17.05.

The telecoms sector also took a beating. Northern Telecom gave up C$2.30 at C$87.70 and BCE lost C$1.20 at C$63.

Among industrials, Alcan Aluminium retreated 60 *cents to C$38.20, while* Seagram shed C$1 at C$71.

Banks were weak. Royal Bank lost C$1.20 at C$78.15 and Bank of Montreal 85 cents at C$64.05.

BCE Emergis was heavily traded, sliding C$1.80 or 6 per cent to C$28.

São Paulo slips back in spite of stable Real

SAO PAULO edged lower in early trading, unwinding some of the previous session's 4.6 per cent gain.

Brokers said sentiment was steady, helped by a stable start in the foreign exchanges for the Real. At the midsession calculation, the benchmark Bovespa *index was off* 75 *at* 8,749.

MEXICO CITY also lost ground, with the IPC index down 33.60 at 3,983.20 at midsession.

Traders said uncertainty had emerged ahead of the release by the central bank of the January inflation figures and following "reduce" advice on Mexican shares from a big US broker. Volume was thin.

SANTIAGO pushed ahead strongly, helped by a 2.5 per cent *surge for power group* Endesa which jumped 5 pesos to 205 pesos. At midsession, the IPSA index rose 1.27 or 1.2 per cent to 106.42.

Paris cashes in January gains

EUROPE

Profit-taking across the board and fears that interest rates in Europe may have bottomed out sent **PARIS** sharply lower at the close of a volatile session.

The CAC 40 lost 115.5 to 4,038.49 in the steepest correction since the Brazilian devaluation last month.

Traders said the 2.8 per cent fall may have been accentuated by the fact that income tax payments were due shortly in France, encouraging investors to cash in on earlier *gains.* Paris was the strongest European market in dollar terms last month.

Finance stocks were among the worst hit, losing 4 per cent on average. CCF fell €3.65 to €77 and BNP lost €3.50 to €71.50. Société Générale ended €6.60 lower at €133 while Paribas lost €2.95 to €82.65.

The FTSE Eurotop 300 index fell 24.19 or 2.02 per cent to 1,173.02. See Euro Prices page.

There was no support from the insurance sector. Axa fell €5.70 to €116.10 while AGF lost 75 cents to €53.95.

Better German unemployment figures, suggesting the European Central Bank may leave interest rates unchanged, benefited cyclicals, seen as undervalued.

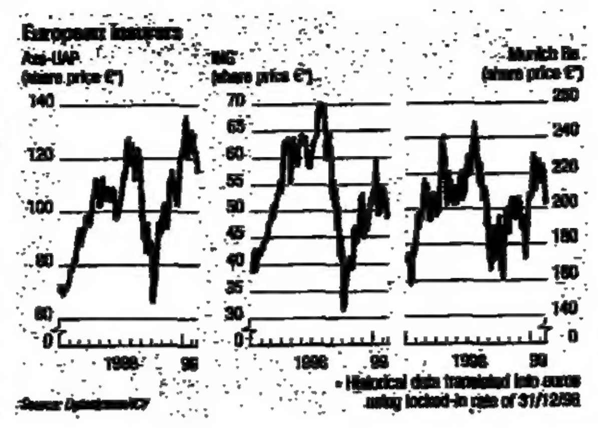
Lafarge rose for the second day running, ending €2.50 higher at €82.50, while Péchiney gained €1 or 3.1 per cent to €33.

Others, however, succumbed to profit-taking after a two-week rally. Saint-Gobain shed €1.70 to €136.30 while Usinor lost 21 cents to €12.59.

France Telecom tumbled after news that the company had raised its basic service charge prompted fears of a fall in subscribers. The stock lost €3.40 or 4.4 per cent to €74.35, weighing heavily on the index.

ZURICH fell to its lowest level since mid-December with the SMI index 112.9 or 1.6 per cent lower at 6,943.0.

Heavyweight pharmaceuticals Novartis and Roche led the market lower. Novartis fell SFr52 to SFr2,560 while Roche certificates shed SFr310 to SFr17,810.



Among the specialty chemicals companies, Clariant lost SFr24 to SFr710. The company will report sales data for 1998 tomorrow.

UBS slid SFr9.50 to SFr442.50. Deutsche Bank upgraded the stock which, it said, offered 77 per cent upside on a two-year view. Deutsche set a target price of SFr800 and forecast a net profit by 2002 of SFr9.5bn. Among other financials, CS Group lost SFr5 to SFr215 while Swiss Re was SFr60 lower at SFr3,260.

Alusuisse held on to some of its early gains to close SFr7 higher at SFr1,625. The group, merger partner of German utility Viag, will hold its annual press conference on Friday.

AMSTERDAM fell 10.18 at 518.06 on the AEX index, pushed lower mostly by a shakeout in the financial sectors.

Against a background of interest uncertainty, ING tumbled €2.30 or 4.5 per cent to €48.40 and Aegon €3.15 to €91.65. ABN Amro shed 55 cents to €17.85 in 10.5m shares traded.

ASM Lithography gained 35 cents to €41 following news of senior management changes, and steel leader Hoogovens turned in the best gain of the day, adding €1.25 or 4.7 per cent at €27.60.

News of a US marketing push sent Heineken up €1.10 to €47.70. Rival Grolsch, hit by results fatigue, slipped 75 cents to €21.15.

Among smaller caps, BE Semiconductor Industries gained 40 cents to €7.00 after an upgrade to "immediate buy" from Merrill Lynch.

MILAN was a heavy loser as profit-taking hit blue chips, including Telecom Italia, Fiat and the banking sector. The real-time Mibtel index finished 596 or 2.6 per cent down at 22,398.

Telecom Italia fell 38.5 cents at €8.048 on profit-taking after recent gains that followed stories of stake-building in the group. Tim, its mobile phone business, bucked the trend with a rise of 3.4 cents to €5.212.

Fiat lost 15.4 cents to €2.67 on heavy profit-taking after Monday's rally, sparked by speculation that the group was interested in BMW.

HDP, up almost 6 per cent at one stage, finished 1.22 cents higher at €56.80 after its publishing unit RCS Editori said it was in talks with News Corp Europe on joining a digital TV venture.

Banks were punished as the market tired of on-off merger talks that had amounted to nothing. BCI lost 29.1 cents to €5.401 and Banca di Roma fell 4.8 cents to €1.251.

MADRID followed the main European markets lower. The general index closed 148.8 lower at 9,500 amid concern that US interest rates might rise and prompt a sell-off on Wall Street.

A fresh dispute between the Brazilian government and the opposition, raising fears for a restructuring of the country's domestic debt, also hit the market.

Blue chip Telefónica fell €1.15 or 2.9 per cent to €38.25 despite news that the company would seek to expand in Europe after it announced the purchase of Austria's European Telecom International on Monday.

MOSCOW put on 4.1 per cent on news that proceeds from the country's restructured domestic debt would be allowed to be re-invested in equities.

While the announcement boosted volume to $6.1m, traders said the upturn was likely to be short-lived. The RTS1-Interfax index put on 2.34 to 58.94.

Written and edited by Michael Morgan, Bertrand Benoit, Paul Gregan and Peter Hall

Profit-taking dents Jo'burg

SOUTH AFRICA

Johannesburg shrugged off a 1 percentage point cut in prime lending rates as inves*tors took profits in a market* shaken by Reserve Bank governor Chris Stals, who said the country had posted a substantial current account deficit in the fourth quarter of last year.

The overall index lost 18.7 to 5,893.4 while industrials fell 22.5 to 6,706.1 and golds *gave up 1.3 to 925.9.*

Financials were 129.0 or 1.4 per cent lower at 9,306.9 as Liberty Life retreated 820 cents to R102.60.

Tokyo hit ahead of book closings

ASIA PACIFIC

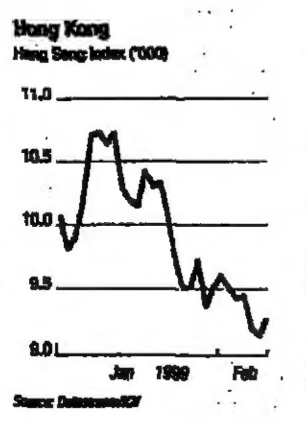
Shares in **TOKYO** slipped yesterday, with companies unwinding their cross-shareholding positions ahead of book closings at the end of March, *writes Julie Hess.*

Recent stabilisation of the bond and foreign exchange markets did not improve sentiment. Investors took a wait-and-see position ahead of Friday's Bank of Japan meeting.

The benchmark Nikkei 225 index fell 0.64 per cent or 89.83 to 13,902 after trading between 14,015.57 and 13,885.79. The sell-off was broadly based. The more representative weighted Nikkei 300 index dropped 0.64 per cent or 1.4 to 215.82 and the Topix index of all first-section shares was down 0.64 per cent or 6.98 at 1,083.65.

Volume remained light, with 306m *shares traded.* Declining issues outnumbered advancers 782 to 336, with 151 issues unchanged.

Blue chips were particularly hit by a sell-off from companies concerned that the strengthening of the US dollar might only be temporary. Sony was down Y130 to Y8,220, TDK Y130 to Y9,330 and Honda Y40 to Y4,140.



Canon shares ended lower after the company issued a profit warning. It expected net profits in 1998 to be below the previous year's level and forecast a further profit decline for the current fiscal year. Canon fell Y70 or 2.99 per cent to Y2,275.

Mycal, one of Japan's biggest supermarket chains, also disappointed investors with its latest profit downward revision. It forecast a net loss of Y35bn *for the* 1998 fiscal year due to valuation losses on its bank holdings. Mycal fell Y47 or 6.48 per cent to Y678. In Osaka, the OSE index closed down 36 at 14,775.

KUALA LUMPUR stayed volatile, rising 22.04 or 4.2 per cent to 548.14 on the composite index to partly reverse a decline of 9 per cent over the two previous sessions. Brokers said the main focus had been bargain-hunting with selected blue chips in demand after the recent shakeout.

Malayan Banking rose 25 cents to M$6.90, Tenaga 15 cents to M$6.40, and Telekom 25 cents to M$8.35.

BANGKOK continued to lose ground with the SET index falling 10.41 to 320.36 for a two-day decline of 5.3 per cent. There was said to be steady selling by retail investors although volume was light at Bt2.9bn.

Sentiment remained subdued as investors fretted about the extent of non-performing bank lending. Bangkok Bank was the most active share, sliding Bt3.50 to Bt39.50.

HONG KONG staged an afternoon turnaround, lifted by *stronger index futures,* covering of short positions and improved sentiment towards China shares. The Hang Seng index finished 104.89 or 1.2 per cent higher at 9,244.49 after plumbing a 1999 low of 9,053.57.

The improved mood came in response to a statement by red-chip food distributor Guangnan (Holdings) that the Guangdong provincial government would provide funds for the company to pay its creditors and continue trading operations.

Guangnan soared 15.9 per cent or 6.5 cents to 47.5, while Guangdong Investment *rose* 12 per cent or 12 cents to HK$1.12. Both are controlled by the debt-ridden provincial fund-raising arm Guangdong Enterprises.

The news sharply boosted sentiment toward China plays, pushing the red chips up 4.7 per cent and H-shares 4.5 per cent.

SEOUL tumbled 4 per cent as programme sales were sparked by undervalued futures contracts. The composite index lost 22.00 to close at a 1999 low of 523.38.

Analysts said confidence was badly shaken by futures-linked arbitrage sales, while comments by a senior Moody's official that the country's economic recovery was fragile also weighed on the market.